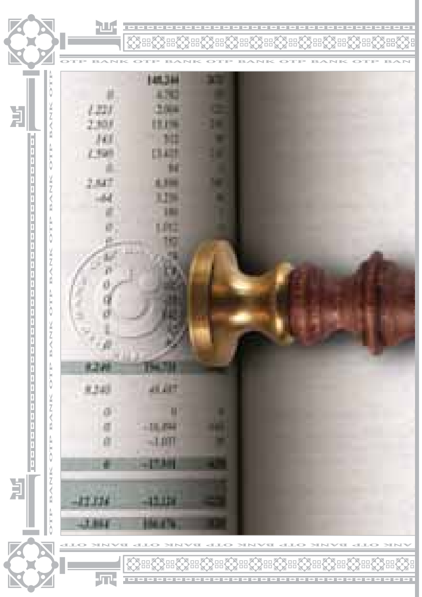
Annual Report



OTP Bank
Annual Report
2016

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Message from the Chairman and CEO

DEAR SHAREHOLDERS,

If I had to sum up the past 12-month period in a single sentence, I'd simply say that the OTP Group has closed a successful year! During a time that brought many unexpected developments, OTP Bank, thanks to its excellent fundamentals forged through our exerted efforts, regained its place among Europe's most profitable and most stable banks by the end of 2016. For the first time in many years, we no longer had to devote most of our energies to salvaging situations caused by the deteriorating macroeconomic environment or unexpected regulatory changes and geopolitical developments, but we were once again able to concentrate on developing our business operations, and on continuous innovation, while also implementing and announcing successful acquisitions.

The quality of the macroeconomic environment fundamentally determines the conduct, activity and performance of participants in the economy. This is especially true of the financial intermediation system, where the conduct of the banks and their customers is far more profoundly affected by their negative experiences of recent years, the massive losses and the regulatory changes already implemented, and those that are expected, than by the essentially optimistic analysts' forecasts regarding the years ahead.

I'm pleased to report that after several years of continuous decline, in 2016 we were once more able to register substantive growth in the performing loan portfolios, and I see a good chance of this trend continuing, and indeed strengthening, in the course of 2017. Furthermore, this forecast doesn't relate to only a few of our markets: we expect to see positive GDP growth in every country where members of our group are located in 2017, and growth in business volumes is a realistic expectation. Another defining factor in terms of the Bank Group's performance in 2016, and the substantial y-o-y improvement in after tax profit, was that our Russian and Ukrainian subsidiary banks returned to profit sooner and more markedly than expected.

It was also mainly due to the excellent after tax profit in these two markets that, in contrast to 2015 when the foreign subsidiaries negatively impacted the consolidated profit by 3%, in 2016 they contributed 38% to the Bank Group's after tax profit; and as a result of the successful Croatian acquisition announced at the end of last year, as well as our other planned transactions, this proportion is set to increase going forward, to approach a figure of 50%.

An important lesson of the crisis was that, after the state's necessary intervention and the temporary tightening of the rules, there is now a need for compromise and cooperation between the participants in the economy, and a restoration of trust. We're happy to note that the favourable developments in the Hungarian macroeconomic environment – such as the improving growth prospects, the restoration of balance that we've been seeing for several years now, the successes achieved in terms of debt management, the unemployment rate of around 4%, the burgeoning consumption due to the growth in real wages, and the reinstatement of the country's investment-grade credit rating – have created opportunities to introduce new measures, or fine-tune existing policy tools (reduction of the VAT rate on new homes, family housing allowance, extension of the deadline for submitting applications in the Funding for Growth Scheme, reduction of the bank tax by more than half), which have considerably improved the stability of the banking system. OTP Bank played an active part in these programmes and made full use of the favourable opportunities that they presented, and consequently the bank's market position has improved in virtually all the key product categories.

And such measures are certainly needed, as despite the improvement in business activity, the environment of low interest rates and the narrowing of margins due to intensifying competition will have a seriously negative impact on revenues. Meanwhile, raising efficiency presents the management with another set of challenges, as the upturn in business activity, overall, brings additional expenses; the development and roll-out of new digital technology also raises cost levels initially, and we shouldn't disregard the wage inflation resulting from the increasingly serious problem of labour shortage either.

In my assessment of the year before last I said that: 2015 was a tough period, but one that brought countless useful lessons. I hope that 2016 marks the beginning of a new period, founded on a return to balanced growth and stable operation.

Overview of financial performance in the year 2016

The price of OTP stock rose by 40% in 2016, closing the year at HUF 8,400. Although there were certainly also technical factors that assisted in this excellent performance, I believe that the improvement in the share price is essentially due to the considerable improvement in fundamental performance. The bank's valuation is excellent not only in regional, but also in pan-European comparison; OTP Bank is one of the few players whose stock price is significantly above the pre-crisis level, with our capitalisation approaching EUR 8 billion as at the start of March 2017.

In 2016 the Bank Group realised an accounting profit of HUF 202.5 billion, the third highest such figure in the history of the Company. The 220% y-o-y improvement was chiefly attributable to the higher adjusted profit and the substantial decrease in adjustment items. In the case of the latter, the balance of these items was HUF 1.3 billion (2015: HUF –57 billion), and within this figure the Hungarian bank tax decreased substantially, by more than half, while the one-off negative items related to the conversion of CHF loans at the Croatian and Romanian subsidiary banks, which generated considerable risk costs in 2015, were no longer present. Meanwhile the proceeds from the sale of the shareholding in VISA Europe, which affected several group members, compensated for the negative impact of various tax-related changes. In 2016 the accounting profit was approximately the same as the adjusted after tax profit.

The Bank Group's annual adjusted after tax profit was HUF 201.2 billion (+67% y-o-y). In terms of the geographic distribution of the contributions to profit, the Eastern European operations realised a minimal y-o-y drop in after tax profit (2015: HUF 188.4 billion, 2016: HUF 181.6 billion), with the substantial change occurring in the performance of the Russian and Ukrainian subsidiaries: in contrast to the HUF 60.3 billion loss of one year previously, the two subsidiary banks achieved an after tax profit of almost HUF 25 billion.

As regards individual performances, OTP Core achieved roughly the same profit as in 2015 (HUF 122.2 billion), while in Bulgaria DSK Bank solidly maintains its second place within the Group (HUF 47.4 billion) in spite of a decline in profit. The performance of the Croatian subsidiary bank (HUF 3.8 billion) improved considerably, as did that of the group-member leasing companies (HUF 4 billion) and OTP Fund Management (HUF 6.7 billion), while the profit of the Romanian operation also improved modestly (HUF 1.7 billion). The Russian subsidiary bank contributed HUF 20.5 billion, and the Ukrainian bank HUF 10.2 billion to the consolidated profit, while our Russian online bank, Touch Bank, remained loss-making (HUF –5.9 billion) in 2016. Our two smaller operations, the Slovak and Montenegrin subsidiary banks, became loss-making due to higher risk provisioning in the last quarter.

Based on all these results, the Bank Group's accounting ROE was 15.3%, while the adjusted ROE was 15.2% Just as a reminder: the 2015 annual General Meeting set the target of an ROE in excess of 15% for 2017, which we have achieved one year earlier than planned, accompanied by a significant improvement in capital adequacy. If we were to base our calculation on the 12.5% CET1 ratio, which has also been expressed as a target by the management, then the Bank Group's ROE would be 17.9%.

Turning our attention to the internal structure of the pre-tax consolidated profit, the HUF 736 billion in annual consolidated revenue excluding one-off items represents a 2% decrease. Within this figure, net interest income fell by 6%, which was clearly due to the erosion of the net interest margin as a result of the continuous decline in the general level of interest rates, as the performing loan portfolios actually grew y-o-y. The consolidated annual net interest margin (4.74%) fell short of the base period by 37 basis points. Fortunately, however, the improvement in business activity was accompanied by an increase in net fee and commission income (+5% y-o-y), which partly made up for the lower net interest income.

The 2% increase in consolidated operating costs can be regarded as a favourable result amid the strong wage inflation experienced in most markets, and alongside the HUF 3 billion y-o-y increase in contributions payable to the various regulatory authorities.

The factor with the most influence on the annual profit growth was the substantial drop in risk costs. In contrast to the HUF 221 billion amount of 2015, in 2016 the total risk cost declined to HUF 93 billion.

In line with the management's preliminary expectations, the quality of the loan portfolios developed favourably throughout the year: the growth in DPD90+ loans in 2016 was HUF 82 billion (FX-adjusted and stripped of the impact of disposals and write-downs). The y-o-y improvement was observed at virtually all the group members, and was at its most pronounced in the case of the Russian subsidiary. The consolidated DPD90+ rate decreased by a substantial 2.3 percentage points to 14.7%, while overall provision coverage rose to 96.8% at the end of 2016. In parallel with this, the credit-risk cost ratio dropped to 1.13%, the lowest it has been since the crisis.

The consolidated, FX-adjusted gross loan portfolio grew by 3% over the course of the year. Due to the substantial loan write-downs and disposals that took place in the reporting period, a more realistic picture of the actual trends can be given by describing the performing (DPD0–90) loan portfolio; according to this, the portfolios grew by 6% at annual level, and 4% quarter-on-quarter. The portfolio growth can mainly be attributed to the excellent rate of expansion in the corporate portfolio: the large corporate portfolios grew by 12%, and the micro and small business segment by 13%; the Hungarian, Bulgarian, Ukrainian and Serbian portfolio growth was outstanding. Furthermore, the consolidated consumer loan portfolios also expanded by 2%, and in this respect it was the Ukrainian and Serbian subsidiaries, as well as the Slovak bank, that showed the strongest performance, although given its size the Hungarian portfolio's 4% expansion is also exceptional. The 5% growth seen in the portfolio of mortgage loans is distorted by the fact that AXA Bank's Hungarian portfolio of mortgage loans has also been stated in OTP Core's books since November 2016. Without this, the portfolios would have decreased by 3% y-o-y, which partly reflects the still high rate of amortisation of the existing portfolio, and the negative impacts of the programmes for the conversion of Croatian and Romanian CHF loans.

With regard to the individual performances, in the case of OTP Core the exchange rate-adjusted performing loan portfolio expanded by 12% y-o-y, with exceptional growth seen in large corporate, as well as micro and small business performing loans, at 15% and 11% respectively. The consumer loan portfolios grew by 4%, and mortgage loans by 12%, although without the AXA portfolio there would have been a 3% reduction in these, which is mainly attributable to the decrease seen in the first half-year; in the second half of 2016 the portfolio would have remained stable even without AXA. As regards the subsidiary banks, the 15% corporate portfolio growth achieved by the Bulgarian DSK Bank was outstanding. In a welcome development, at the Russian subsidiary bank, owing to the seasonally strong fourth-quarter growth in consumer durable loan disbursements, the portfolio decline experienced in recent years has ceased; indeed, the portfolio grew by 1% overall, and a similarly favourable change was also seen in Ukraine. After the dynamic growth of previous years, the FX-adjusted consolidated volume of deposits grew again in 2016 (+6% y-o-y). With this, the Group's net loan-to-deposit ratio (66%) declined slightly over the past year. On 31 December 2016 the Bank Group's gross liquidity reserve amounted to the equivalent of EUR 8.1 billion. The OTP Group's IFRS consolidated Common Equity Tier 1 (CET1) ratio was 13.5% at the end of 2016 (+0.3 pp y-o-y). The regulatory capital does not contain either the positive annual net profit (which can only be included in the audited profit figure), or the deduction due to the accrual of dividends. Taking these into account the CET1 ratio would be 15.8%.

Individual performances of banks in the group

OTP Core (the Group's Hungarian core operation) achieved a HUF 122.2 billion after tax profit excluding adjustment items in 2016 (–1% y-o-y). The lower annual adjusted profit is attributable primarily to the 6% decrease in net interest income and the 7% increase in operating costs. The 16% y-o-y drop in operating profit was offset by the marked improvement in the total risk cost line: in contrast to the HUF 25.6 billion in risk provisions set aside in 2015, in the year 2016 some HUF 6.1 billion was released, and within this figure HUF 14 billion was released on the credit risk cost line.

The 25 basis-point drop in the annual interest margin (3.36%) was primarily due to the environment of low domestic interest rates, and the increased weight, within the loan portfolio, of the lower-margin corporate volumes.

The change in portfolio quality shows a favourable tendency: the FX-adjusted DPD90+ portfolio, stripped of disposals and write-downs, grew by HUF 12 billion in 2016, but this is almost entirely related to the AXA portfolio that was taken over in November. The provisions coverage for loans more than 90 days past due was 82.7%; the DPD90+ ratio declined by 2.3 percentage points due to write-downs and disposals, dropping below the 10% level (9.8%) for the first time since 2010.

The FX-adjusted performing loan portfolio grew by 12% at annual level (without the AXA portfolio: +5% y-o-y), with strong growth shown mainly by the corporate portfolios, while consumer loans grew by 4%. New mortgage loan placements developed favourably again in 2016 (+40% y-o-y). The bank retained, and indeed improved on its already excellent market position with regard to new contract volumes: at annual level it secured a 29.1% share of the market. OTP Bank also played a key role in the disbursement of subsidised housing loans, with some 75% of applications submitted at sector-level landing at the Bank. OTP is also market leader in the area of direct state subsidies ('CSOK' family housing allowance), with every other CSOK application approved by OTP. Some 67% of the CSOK applications submitted to OTP in 2016 were linked to a bank loan application.

The FX-adjusted deposit volume, together with retail bonds, grew by 8% at both annual and quarterly level. The year-end volume of the deposits taken over from AXA was approximately HUF 60 billion. The net loan/deposit ratio increased minimally (49%, +1 pp y-o-y, FX-adjusted).

The Hungarian **Merkantil Bank and Car** realised a HUF 2.6 billion positive adjusted after tax profit in 2016. The 60% y-o-y profit growth can be attributed to the stable revenues (+3% y-o-y) and the decrease in risk and operating costs. The FX-adjusted total gross loan portfolio has started to show growth (+5% y-o-y), with increases in both the corporate and vehicle loan portfolios. The volume of newly placed vehicle loans increased by 9% y-o-y.

OTP Fund Management posted a HUF 6.7 billion annual profit, which is 38% higher than the previous year's figure. The portfolio of management funds decreased by 4% y-o-y (end 2016: HUF 1,530 billion), but in Q4 it grew by 2% relative to Q3. The company continues to maintain its almost 20% share of the domestic fund management market.

The **DSK Group's** contribution to profit remains the second highest within the OTP Group, although the HUF 47.4 billion after tax profit of 2016 was 10% short of the figure for the base period. The Bank's annual operating profit decreased by 4%, and within this figure, revenues eroded 2% y-o-y. The 5% drop in net interest income at annual level was a consequence of the narrowing interest margin; the annual net interest margin (4.63%) decreased by 62 basis points. Fee revenues (+13% y-o-y) developed favourably, however, which was primarily due to the dynamic corporate loan disbursements and the growing deposit and payment commission revenues. The quality of the portfolio improved further, with the DPD90+ rate dropping to 11.5% (–3.4% pp y-o-y), while the overall provision coverage of DPD90+ loans rose to 108%. The FX-adjusted change in the portfolio of DPD90+ loans, stripped of the impacts of disposals and write-downs, also presents a positive picture; after the HUF 6 billion increase of 2015, the decrease in 2016 amounted to HUF 3 billion. The total cost of risk rose by 19% at annual level, but impairment related to lending decreased by 11% y-o-y. This brought the annual credit risk cost ratio to 1.12% (–14 bp y-o-y). The FX-adjusted performing loan portfolios showed a 4% expansion. Within this figure, owing to the dynamic change in sales activity, the corporate portfolios grew by 15% and further improved the bank's market share. The retail segment saw a decrease in spite of the favourable sales trends, with the performing mortgage loan portfolio declining by 1%, and the consumer credit portfolio effectively stagnant y-o-y.

Due to the bank's consistently profitable operation and excellent market reputation, the FX-adjusted volume of deposits grew by 4% y-o-y, and this led to a further reduction in the bank's net loan-to-deposit ratio at annual level (65%). DSK's profitability and efficiency is excellent; the annual ROE was 18.9% and the cost/income ratio 37.7%.

The operation of the **Russian subsidiary bank** (excluding Touch Bank) turned a corner in 2016: in contrast to the previous year's HUF 15.1 billion loss, in 2016 the bank realised a HUF 20.5 billion after tax profit. The substantial improvement is mainly attributable to the 58% y-o-y fall in risk costs, which more than compensated for the 4% decrease in operating profit at annual level. Parallel with the stabilisation of the Russian macroeconomic environment, favourable trends emerged in terms of portfolio quality: the FX-adjusted change in the DPD90+ portfolio, stripped of disposals and write-downs, was HUF 110 billion in 2015, and HUF 48 billion in 2016. Owing to the write-downs and disposals of non-performing loans, the DPD90+ rate declined to 20.2% by the end of the year (–3.2 pp q/q), and the overall provision coverage of DPD90+ loans was 117.6%.

The FX-adjusted performing loan portfolio grew by 1% y-o-y overall. Consumer durables lending continues to lie in the focus of business activity: due in part to the exceptionally high disbursements in Q4 (+32% q/q), the consumer durables loan portfolio grew by 17% at annual level. The portfolio of performing card-based loans continued to decrease at annual level, while the portfolio of personal loans grew by 7%.

The bank's FX-adjusted volume of deposits dropped 6% y-o-y, bringing the net loan-to-deposit ratio to 108% at the end of the year.

The cost of risk ratio, expressed in forint, decreased significantly over the year as a whole (7.7%). The bank's annual net interest margin expressed in forint was 16.25% (+0.69% y-o-y), and remains the highest within the Group; the bank's ROE was 19.1%.

The digital bank **Touch Bank,** which in legal terms operates as a part of the Russian subsidiary but in practice functions as a stand-alone key business line, continued to make a loss (HUF –5.9 billion, +22% y-o-y) in the second year of its operation, principally due to a 25% annual increase in the bank's operating costs. Customer acquisition and the building of portfolios continued, but on the asset side this progressed at a slower pace than planned. The volume of deposits at the end of 2016 was close to HUF 20.5 billion. From 2016 Q2 the disbursement of card-based credit and renewable personal loans also got under way; the volume of these is marginal so far.

The **Ukrainian subsidiary bank,** after the massive losses of the previous 2 years, produced a positive net result in 2016; its profit for the year was HUF 10.2 billion. This major turnaround in profitability is essentially attributable to the fall in risk costs. The trends in loan quality were clearly favourable: following the substantial portfolio cleansing that took place in 2015, the annual costs of risk decreased substantially (–84% y-o-y). The FX-adjusted DPD90+ portfolio growth, stripped of the impacts of disposals/write-downs, stabilised at the 2015 level (HUF 11 billion) over the year as a whole. The ratio of DPD90+ loans decreased to 41.9% (–6.6 pp y-o-y); the overall provision coverage of DPD90+ loans is stable at over 118%. The FX-adjusted performing loan portfolio grew by 5% over the past 12-month period, and within this the retail portfolio shrank by 5%, but the corporate portfolios grew by 8%. Mortgage lending is still suspended, and the rate of credit card disbursement is relatively restrained. At the same time, consumer durables credit shows a continuously improving rate of growth: at annual level the placements increased by 62%, while the performing portfolio expanded by 49%. The FX-adjusted volume of deposits grew by 13% y-o-y. The bank's net loan-to-deposit ratio remained almost unchanged (84%). During the year the volume of group financing decreased by HUF 61 billion, and at the end of 2016 amounted to the equivalent of HUF 46 billion.

The **Romanian subsidiary bank's** adjusted annual profit came to HUF 1.65 billion, representing a 12% improvement y-o-y. The operating profit grew by 41% y-o-y; the moderate drop in revenues was amply offset by the 16% decrease in operating costs, which already reflects the cost synergies of Banca Millennium, which was purchased in 2015. Within basic banking revenues, net interest income dropped by 11% y-o-y as a consequence of the programme launched by the bank for the conversion of CHF mortgage loans; in Q4, however, an improvement was already being observed. The annual 80-basis-point decline in the net interest margin (3.29%) can also be linked to the conversion programme. The FX-adjusted gross loan portfolio decreased by 3% y-o-y; but in Q4 a 1% expansion was already observed. The erosion of the retail portfolios, which is attributable in part to the conversion programme, was partially offset by the 2% expansion in the corporate portfolio. In Q4 there was already strong growth in disbursements in all product segments. As a result of the slight increase in customer deposits, the net loan-to-deposit ratio dropped to 134% (–8 pp y-o-y, FX-adjusted). The DPD90+ rate rose to 17.4% and the overall provision coverage of DPD90+ loans improved (81.7%).

The **Croatian subsidiary bank** further improved its performance in 2016, as the almost HUF 3.8 billion adjusted after tax profit exceeds the previous year's figure by 27%. The operating profit increase by 25% y-o-y, while credit risk costs decreased by 22%. The bank's net interest margin (3.51%) improved by 39 basis points y-o-y. The FX-adjusted loan portfolios remained effectively unchanged y-o-y, reflecting the negative volume impact related to the settlement of retail CHF mortgage loans, but in Q4 they grew by 2% relative to the previous quarter. The quality of the loan portfolio shows an improving trend; the ratio of DPD90+ loans dropped to 12.1% (–1 pp y-o-y), and the overall provision coverage of DPD90+ loans increased substantially (87.6%, +16.7 pp y-o-y).

The **Slovak subsidiary bank** was unable to repeat its profitable operation of the previous two years, and produced a HUF 2.2 billion loss in 2016. This was chiefly the result of the tripling of risk costs, relative to the previous quarter, in the last quarter of 2016.

The operating profit improved by 3% y-o-y, while risk costs jumped 78% at annual level. A positive development was that the bank consistently maintained its annual net margin (3.15%) in spite of the environment of falling interest rates. The FX-adjusted loan portfolios grew by 2% y-o-y, with disbursements at their most dynamic in the case of mortgage loans. The quality of the portfolio deteriorated; the ratio of DPD90+ loans rose by 1.5 percentage points y-o-y to 11.2%; the overall provision coverage of DPD90+ loans increased substantially (74.2%, +11.2 pp y-o-y).

The **Serbian subsidiary bank** realised minimum profit (HUF 39 million) in 2016. At annual level the operating profit dropped considerably (–46% y-o-y), but this was offset by the 59% decrease in the costs of risk. The FX-adjusted performing loan portfolio grew by 12% y-o-y, with substantial growth in volumes observed in both the retail and corporate divisions, while the greatest rise was observed in the SME segment. The ratio of DPD90+ loans decreased further (32.7%); their overall provision coverage was stable (74.2%).

The **Montenegrin subsidiary bank** was unable to continue its profitable operation produced since 2013, and in 2016 the bank realised a HUF 1.8 billion loss. The main reason for this was the doubling of the cost of risk, and alongside this, the operating profit also decreased by 15% in 2016.

The FX-adjusted loan portfolio shrank by 4% y-o-y, and deposits grew by 1%. The portfolio of loans overdue by more than 90 days decreased (its ratio is 42.2%), but its overall provision coverage improved by 10 percentage points y-o-y (92.9%).

Innovation, accolades

OTP Bank was among the first to recognise the opportunities inherent in innovations related to digital channels, and this is one reason why the Bank is the market leader in respect of all digital channels in Hungary. It is a strategic priority of the Bank to achieve full digital transformation.

At the beginning of 2015 we launched our Digital Transformation Programme with the objective of providing a better digital customer experience, achieving cost-effective operation, and introducing automated processes. Our aim with these developments is to provide our customers with new options in addition to the personal service offered in our branches:

OTP Bank's digital services are helping to make banking simpler, quicker and more convenient than ever before. As a part of this, online corporate and retail account opening, personal loan and overdraft applications via the internet banking platform, and a customisable retail account structure, all became available in 2016. Besides this, we also expanded our range of non-traditional banking services, examples of which include the SIMPLE mobile application and the OTP Discounts Programme.

The Bank Group's excellent performance and innovative services have earned it countless professional accolades: OTP Bank has for many years received the Best Bank in Hungary award from financial journals The Banker, Euromoney and Global Finance, and besides these, OTP's private banking service is also the proud holder of the title of best domestic, and indeed regional, service provider. In the competition run by MasterCard, in 2016 it won the Bank of the Year award, the highest honour for commercial banks providing retail banking services in Hungary; and to top this off, OTP Bank also came first in three other categories in the same competition: Socially Responsible Bank of the Year, Most Likeable Bank of the Year, and Banker of the Year.

Expectations for 2017

As I already mentioned in the introduction, 2017 could be the first post-crisis year in which

we predict positive GDP growth in the countries of all the group members. Besides this, we have put behind us the era in which local regulators had to deal with the retail foreign currency loans that had previously caused so many problems. In the medium term we essentially take an optimistic view of the development prospects of the Central and Eastern European region, which as well as organic growth also offers further acquisition opportunities. The management maintains its objective of strengthening our positions in markets where our presence falls short of the optimal market size. And our excellent liquidity and capital strength provide us with the means for doing so. In 2016 we completed one successful acquisition, and announced another: In Hungary we purchased AXA Bank's portfolio; the integration was completed in November, and as a result of this, our share of the domestic mortgage market, in terms of volume, rose from around 3% to 28.5%. The purchase of the Croatian subsidiary bank of Sociéte General was announced by us in December, and the consolidation of Splitska banka will take place in the second half of 2017. As a result of the transaction, the new bank's market share by total assets will exceed 11%. I believe that both transactions are consistent with our strategic objectives and will substantially boost the Bank Group's capacity to create value.
The management has articulated the following expectations with respect to 2017:

- our objective with regard to a return on equity (ROE) of more than 15% (assuming 12.5% Tier1 capital adequacy) remains in place;
- apart from the HUF 15.4 billion (after tax) negative impact of the Hungarian and Slovak bank tax, we do not expect any more significant adjustment items;
- the rate of growth in the performing loan portfolios – with the impact of acquisitions – is expected to accelerate further, but will remain in the single digits;
- the decline in the net interest margin is expected to continue, albeit at a slowing rate, by around 15–20 basis points;
- the quality of the loan portfolios will continue to develop favourably, and the total cost of risk is expected to decrease further;
- operating costs could increase by 3–4% y-o-y, partly due to wage inflation and to the costs arising in connection with the ongoing digital transformation;
- the stable capital position and strong internal capital-generating capacity make more acquisitions possible;
- in keeping with the practice of the previous 2 years, the nominal amount of dividend paid in respect of the year 2017 can be expected to grow by 15% in the base scenario.

I am confident that the year 2017 will be as successful as the previous year. Hopefully the years ahead will be characterised by predictable business operation, organic growth supported by acquisitions, constant innovation, further improvements in the quality of our services, the capital strength and liquidity that, although they may seem dull, have been shown by the past years' events to be essential for ensuring our stability, and profitability that stands out even in international comparison.

While retaining the values that we have always upheld, there is a need for constant renewal. This is not only something that is dictated by the competition; for ourselves, too, we need to set objectives that are in line with what is expected of a market-leading financial institution, and which also offer a realistically attainable vision for our employees and customers. We have every reason to believe that the OTP Group will fulfil society's expectation that, while ensuring stable, predictable operation, it will provide individuals and communities with an effective service and a positive customer experience in the management of their day-to-day finances.

I truly appreciate your help and support in achieving the objectives described above.

Dr. Sándor Csányi
Chairman & CEO

Macroeconomic and financial environment in 2016

MACROECONOMIC AND FINANCIAL DEVELOPMENTS IN HUNGARY

In 2016 macroeconomic developments were shaped by a still fragile global growth, intensifying fears surrounding China's slowing economy, concerns about the Brexit referendum, and the political uncertainty caused by the US presidential election, as well as the associated persistence of ultra-loose monetary policies. Another important factor was the continued slump in commodity prices that started in 2014 – even though they started to pick up in spring 2016, global crude prices could not go beyond USD 50, thus some OPEC and non-OPEC oil exporter countries struck a deal in December to freeze output at fixed levels.

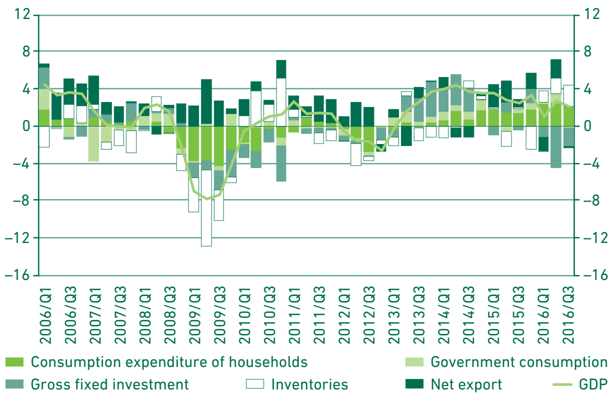
The USA's economic performance was fairly good in comparison with other developed economies, even though the increase in its GDP and productivity in recent years missed expectations. The first half-year of 2016 did not start well: growth was subdued, and the Fed did not touch interest rates for a whole year after the rate hike in December 2015, because of China's deceleration and the slow rise in wage inflation. But unemployment shrank further and long-term yields rose meaningfully. In response, the Fed raised interest rates in December again by 25 basis points, to 0.5–0.75%. Despite the expected two-to-four increases per year, the nominal level of short-term interest rates may for years lag behind inflation, which is likely to exceed 2% and accelerate further from the beginning of 2017. The infrastructure investments and the tax cuts outlined in the new president's economic programme may further accelerate growth, wage dynamics, and inflation.

Even though some core countries performed somewhat better than expected, the whole eurozone's growth (1.7% year/year) was sluggish. In a number of countries, chiefly in the periphery, massive government debt and the fragile banking system continue to pose problems. Because of the high unemployment, the strong price competition caused by the unused capacities in the real economy, and the low commodity prices, inflation was short of the ECB's target. As a result, the ECB further eased its monetary conditions in spring 2016, and it extended its asset purchase programme at its December meeting until end-2017, although its size will shrink from EUR 80 bn to 60 bn from April 2017.

Matching our expectations, Hungary's economic growth temporarily slowed to 2% in 2016 owing to a fall in EU funding, and a lacklustre industrial production. The amount of EU-fund-related budgetary payments shrank by 2% of GDP in 2016, to 2,100 billion, down from HUF 2,800 billion a year earlier. (The reason for this temporary drop is that from 2016 on, funds from the former 2007–2013 budgetary cycle were no longer available, only from the 2014–2020 budget). Moreover, the government paid nearly half of this amount in December, therefore its economy-boosting effect will be felt in 2017 only. On the whole, the lower governmental payment lowered last year's growth by nearly two percentage points, and the excellent agricultural performance could offset only half of that.

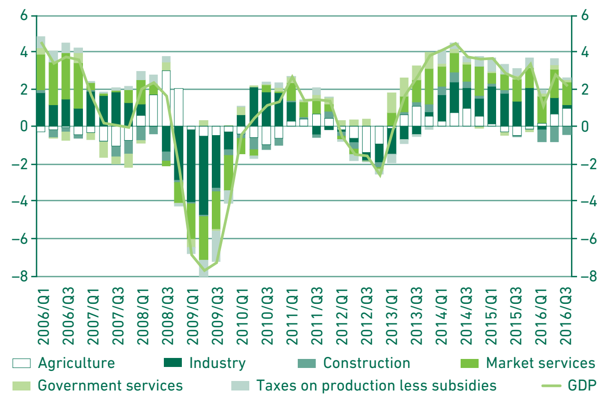
Growth without one-off items remained robust. The Hungarian economy, which had entered the mature phase of growth, saw its consumption vigorously growing (by almost 5%), thus becoming the engine of growth instead of exports and EU-co-financed investments. The sustainable and persistent growth in consumption was supported by the rise in real wages, the decreasing unemployment rate, the substantial growth in savings during the crisis years, as well as the substantially falling debt volumes.

Hungary's GDP growth, by expenditure side (%)



Sources: HCSO, OTP Research

Hungary's GDP growth, by production side (%)



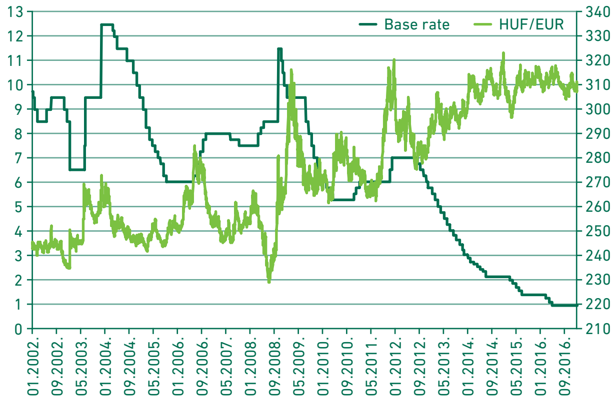
Sources: HCSO, OTP Research

Although investments contracted by 10%, this is because of EU-co-funded public or government-related investments, which masks the fact that industries that are based on domestic demand – mainly market services and real property sector – show some signs of pick-up. The anticipated turnaround on the real estate market has happened. Because of the rising prices and the government's measures to boost the housing market – through VAT cut and housing subsidy for families ('CSOK') –, the number of building permit claims grew sharply, implying that as many as 20,000 homes may be built in 2017; now the narrow construction capacities may be the bottlenecks. In this context, both companies and households have borrowed more than they have repaid, for the first time since the financial crisis.

There was a strong improvement on the labour market last year. Unemployment steadily fell, thanks to the rise in the private sector's demand for labour, to an increase in the number of public work participants, and expatriation. Wages grew strongly (by around 4%), slightly accelerating at the end of the year. It seems that some segments of the labour market may face capacity limits.

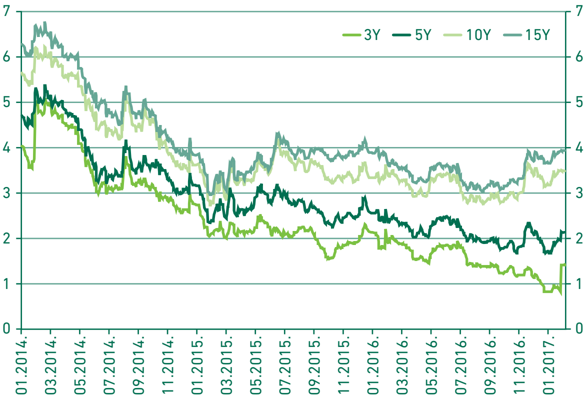
Consumer prices grew by an average of 0.4% in 2016. In the last four months of the year, inflation exceeded our expectations, due to the accelerating inflation of market services and the steeper-than-estimated rise in fuel prices (excise duty grew in Q4, as did crude oil prices on global markets, and the forint weakened against the US dollar). Meanwhile, the excise duty hike in September did not filter into tobacco prices until the end of 2016, posing some upside risks to the future of CPI. At the beginning of 2017 inflation may grow faster than had been thought. The disinflationary effect of food prices will also decrease. Services inflation, which has been accelerating, will be further spurred by the increase in minimum wages and guaranteed minimum wages for skilled workers, as well as the narrowing of the labour market.

HUF/EUR and the MNB's base rate



Sources: Reuters, MNB, OTP Research

Government bond yields (%)



Sources: ÁKK, OTP Research

While keeping the base rate at 0.9%, the MNB steadily decreased the cap on 3M central bank deposits. As a result, the banking system's excess liquidity has grown, short-term yields have come down, and the HUF slightly depreciated. So far, the MNB's measures have achieved their goals, because the 3M BUBOR interest rate and the 3M government bond yield has fallen meaningfully since the cap's introduction. In early December the forint's depreciation took the EUR/HUF to 315, but it opened on a stronger note in January. Continuing the December increase, the 10Y government bond yield rose slightly at the beginning of January.

MACROECONOMIC AND FINANCIAL DEVELOPMENTS IN THE COUNTRIES OF OTP BANK'S FOREIGN SUBSIDIARIES

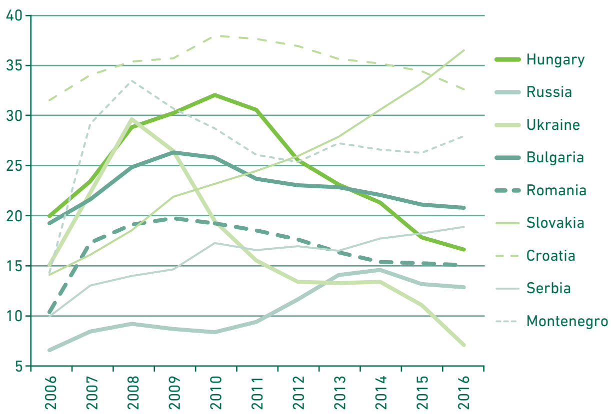
The economic performance of most countries where OTP has subsidiaries has improved since 2015. Central and Eastern Europe maintained its robust growth; in the Balkans countries, except Montenegro, growth increased and fiscal position stabilized; while commodity exporting countries seem to be recovering from the recession caused by the collapse of commodity prices in 2014–2015: the contraction of the Russian economy slowed to 0.2%, and Ukraine's economy even expanded. In a favourable development for banks, household consumption growth has accelerated in all countries but Bulgaria (in Russia from –9.8% to –5%), and investment activity was on the rise in most countries. However, only part of that has been reflected in banking penetration so far.

Central and Eastern Europe kept up its excellent performance. Economic growth may have been near 5% in Romania, 3.7% in Slovakia, and 3.4% in Bulgaria. Hungary's GDP growth slowed to 2%, but that was fundamentally due to a temporary fall in EU funds. In the CEE region, households' consumption remained the engine of upturn, which will remain a robust and stable source of growth in the future, as unemployment is decreasing, wages are rising, and savings rates are high. There is no problem with sustainability, not even in Romania, which has the least robust balanced position and where budget deficit is climbing towards 4% of GDP based on the measures announced so far; both sovereign and external debts are declining. On the basis of the above, the region's growth is expected to remain at 3% in the coming years.

The background in most countries of the Balkans also improved. Recovering from six consecutive years of recession, Croatia's economic growth speeded up to nearly 3% and it is forecast to expand by 2–3% annually in the years to come. Its balance indicators have become favourable, the country posted current account surplus, while its budget deficit dropped to near 2% of GDP, its public debt is on a slightly declining path, and the country's financing conditions have improved a lot. A major engine in its sturdy growth in 2016 was the record strong tourism season; it will be difficult to repeat this degree of improvement, but the tax cuts in 2017 and the accelerating EU fund absorption may give an impetus to domestic demand. Serbia's balance indicators have also improved, and its growth speeded up. Only Montenegro's environment is unclear: its economic expansion slowed, while the budget deficit and external imbalance remained high, and so are its debt indicators.

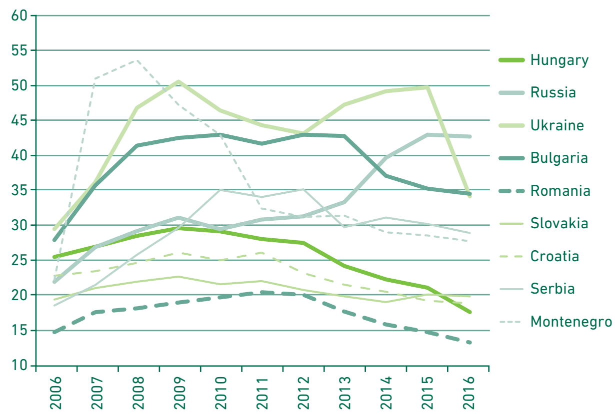
In commodity producing countries, Ukraine grew by nearly 1% in 2016, recovering from almost 10% recession in 2015; its 2016 Q4 growth exceeded 4%. Despite the uncertainty caused by the war situation and the implementation risk of the IMF programme, domestic demand could expand, while balance indicators did not deteriorate. Russia is also likely to have ended economic contraction, and as the effect of rouble weakening is coming to an end, inflation fell below 5% by early 2017. Yet the central bank remains cautious in cutting interest rates; this points towards rouble firming and goes slightly against growth. The rebound in crude prices is clearly positive for the whole of the economy; the country's budget may return towards equilibrium in two or three years.

The banking system's retail loans (EOY, % of GDP)



Sources: National banks, OTP Research, 2016 forecast

The banking system's NFC loans (EOY, % of GDP)



Sources: National banks, OTP Research, 2016 forecast

OTP Bank

Annual Report

2016

Management's Analysis

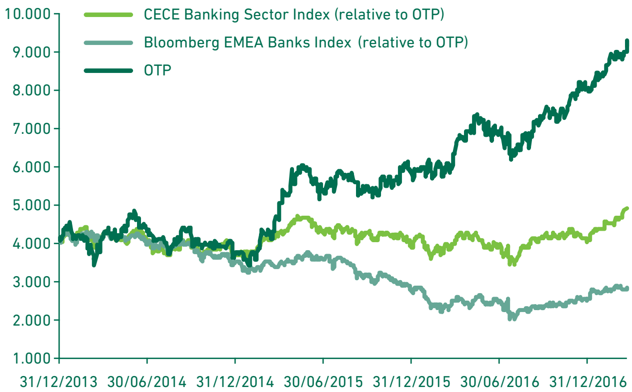
Management's analysis of the 2016 results of the OTP Group

CONSOLIDATED FINANCIAL HIGHLIGHTS AND SHARE DATA[1]

Main components of the Statement of recognised income	2015 HUF million	2016 HUF million	Change %
Consolidated after tax profit	**63,171**	**202,452**	**220**
Adjustments (total)	**(57,073)**	**1,276**	**(102)**
Consolidated adjusted after tax profit without the effect of adjustments	**120,245**	**201,176**	**67**
Pre-tax profit	146,057	244,772	68
Operating profit	362,594	335,900	(7)
Total income	754,912	736,316	(2)
Net interest income	553,659	521,949	(6)
Net fees and commissions	167,250	175,966	5
Other net non-interest income	34,002	38,400	13
Operating expenses	(392,317)	(400,416)	2
Total risk costs	220,709)	(93,218)	(58)
One off items	4,172	2,090	(50)
Corporate taxes	(25,813)	(43,596)	69
Main components of balance sheet closing balances	**2015**	**2016**	**%**
Total assets	10,718,848	11,307,665	5
Total customer loans (net, FX-adjusted)	**5,454,536**	**5,736,232**	**5**
Total customer loans and advances (gross)	**6,423,588**	**6,680,504**	**4**
Total customer loans (gross, FX-adjusted)	**6,483,245**	**6,680,504**	**3**
Allowances for possible loan losses	(1,013,620)	(944,273)	(7)
Allowances for possible loan losses (FX-adjusted)	(1,028,709)	(944,273)	(8)
Total customer deposits (FX-adjusted)	**8,025,435**	**8,540,583**	**6**
Issued securities	239,376	146,900	(39)
Subordinated loans	234,784	77,458	(67)
Total shareholders' equity	1,233,659	1,420,649	15
Indicators based on one-off adjusted earnings	**2015**	**2016**	**%/pps**
ROE (from accounting net earnings)	5.1%	15.3%	10.2
ROE (from accounting net earnings, on 12.5% CET1 ratio)	5.3%	17.9%	12.5
ROE (from adjusted net earnings)	9.6%	15.2%	5.5
ROA (from adjusted net earnings)	1.1%	1.8%	0.7
Operating profit margin	3.34%	3.05%	(0.29)
Total income margin	6.96%	6.69%	(0.28)
Net interest margin	5.11%	4.74%	(0.37)
Cost-to-asset ratio	3.62%	3.64%	0.02
Cost/income ratio	52.0%	54.4%	2.4
Risk cost to average gross loans	3.18%	1.13%	(2.06)
Total risk cost-to-asset ratio	2.04%	0.85%	(1.19)
Effective tax rate	17.7%	17.8%	0.1
Net loan/(deposit+retail bond) ratio (FX-adjusted)	67%	66%	0
Capital adequacy ratio (consolidated, IFRS) – Basel3	16.2%	16.0%	(0.2)
Tier1 ratio – Basel3	13.3%	13.5%	0.3
Common Equity Tier 1 ('CET1') ratio – Basel3	13.3%	13.5%	0.3
Share Data	**2015**	**2016**	**%**
EPS diluted (HUF) (from unadjusted net earnings)	242	765	216
EPS diluted (HUF) (from adjusted net earnings)	458	761	66
Closing price (HUF)	6,000	8,400	40
Highest closing price (HUF)	6,158	8,411	37
Lowest closing price (HUF)	3,479	5,714	64
Market Capitalization (EUR billion)	5.4	7.6	41
Book Value Per Share (HUF)	4,406	5,074	15
Tangible Book Value Per Share (HUF)	3,840	4,487	17
Price/Book Value	1.4	1.7	22
Price/Tangible Book Value	1.6	1.9	20
P/E (trailing, from accounting net earnings)	26.6	11.6	(56)
P/E (trailing, from adjusted net earnings)	14.0	11.7	(16)
Average daily turnover (EUR million)	15	15	(2)
Average daily turnover (million share)	0.9	0.7	(26)

[1] Structural adjustments made on consolidated IFRS profit and loss statement together with the calculation methodology of adjusted indicators are detailed in the Supplementary data section of the Report.

Share price performance



MOODY'S RATINGS	
OTP Bank	
Foreign currency long-term deposits	Baa3
OTP Mortgage Bank	
Covered mortgage bond	Baa1
STANDARD & POOR'S RATING	
OTP Bank and OTP Mortgage Bank	
Long-term credit rating	BB+
FITCH'S RATING	
OTP Bank Russia	
Long-term credit rating	BB

MANAGEMENT'S ANALYSIS OF THE FULL-YEAR 2016 RESULTS OF OTP GROUP

In 2016 the Hungarian economic output increased by 2% y-o-y with bulk of the macroeconomic indicators demonstrating material y-o-y improvement. Due to stronger revenues and despite the significant year-end fiscal stimulus the overall budget deficit remained below 2% and the public debt to GDP declined below 74%.

Within that the FX component and the share of non-resident holding eroded substantially, as a result the public debt financing conditions improved a lot and the vulnerability of Hungary declined further.

The Central Bank continued its loose monetary policy supporting the sustainable economic growth through conventional and non-conventional tools. The policy rate remained unchanged at 0.9% since May 2016, whereas the interbank reference rates (of which the most relevant for the banking sector is the 3M BUBOR) dropped well below that level as a result of Central Bank measures.

Apart from the supporting operating environment the banking sector also benefited from those government measures (scaling back the banking tax, extending the Housing Subsidy Scheme for Families, the so-called CSOK) which aimed at the longer term stable and balanced growth of the economy.

It is of great importance for the stable development of the sector that after several consecutive years of loan portfolio erosion the long-awaited turnaround in lending activity did take place in 2016: net loan flows turned into positive on sector level and due to strong underwriting activities corporate volumes have already increased.

The favourable macroeconomic trends and positive regulatory changes induced upgrades at rating agencies, too: by November 2016 Hungary became investment grade rated again at all major rating agencies. Such steps will undoubtedly support an even more cost-effective refinancing of public debt and stronger FDI flows.

Regarding 2017 economic outlook, OTP Bank's own forecast is a 3.9% GDP growth supported by further improving local consumption and more active utilization of EU funds. Fiscal deficit might drop well below 2%, whereas the average inflation may be around 2.9%. As a result of the tight labour market, the year-end wage agreements and additional government measures, the nominal wage increase is expected to hover between 7–8%.

As for the rest of OTP's operation in the CEE region the management calculates with improving macroeconomic conditions in each country, thus 2017 might be the first year since the crisis when all regional economies might post positive GDP growth. Besides Hungary the GDP increase is expected to be the strongest in Romania and Bulgaria (above 4% and 3% respectively), in case of Romania the new Government announced massive fiscal expansion plans in January 2017.

In case of Ukraine and Russia, local subsidiaries became profitable earlier and in bigger scale than expected, and the operational environment supports cautious optimism for both countries. If the base case scenario prevails without any major negative geopolitical disruption the Ukrainian GDP might expand between 2.5–3% and further structural reforms might be carried on (one good example of that was the forced nationalization of the largest local bank, PrivatBank in December 2016) which overall can have a stabilizing impact on Ukraine.

With the current oil price above 50 USD/barrel the Russian authorities enjoy the benefit of some fiscal manoeuvring potential; it also does have a positive impact on RUB and helps loading the fiscal reserves. Furthermore, it might allow the CBR to continue its cautious rate-cut moves. As a whole it may support consumption/investment behaviour.

In line with its strategic goals and utilizing its outstanding liquidity and capital position in 2016 OTP Group completed a successful acquisition in Hungary and announced another one in December in Croatia.

The take-over of AXA Bank's Hungarian portfolio was completed on 1 November, thus the relevant balance sheet and P&L items were consolidated in 4Q 2016.

The acquisition of Splitska banka in Croatia was announced on 21 December 2016, the consolidation is expected to take place in 2H 2017, whereas the full integration process will be completed in 2018.

Changes related to FX mortgage loans affecting OTP Bank's foreign subsidiaries

1. Romania

By 31 August 2016 OTP Bank Romania's own CHF mortgage loan conversion programme that started on 9 December 2015 was completed with around 73% of the eligible clients participating (i.e. it involved about 7,000 individual contracts).

On 13 May 2016 the so-called 'walk-away' law came into effect. Accordingly, eligible borrowers might simply return the property to the banks in exchange for getting rid of the mortgage loan. Clients' interest was fairly benign: by 31 December only 269 customers applied for the scheme (with a gross volume of RON 83 million). OTP Bank Romania has already created the necessary individual and collective provisions. On 25 October 2016 the Romanian Constitutional Court declared several parts of the law unconstitutional and ruled the issue into the competence of local courts to deal with the insolvency and unforeseen developments issues of clients.

On 18 October 2016 the Romanian Parliament unanimously passed a law requiring banks to convert all mortgages originated in CHF into local currency at rates prevailing at origination, however on 24 October the Romanian Government sent the law to the Constitutional Court for review, consequently the President has not signed the Act either. On 7 February 2017 the Constitutional Court declared the Act as a whole unconstitutional.

2. Croatia

In Croatia the conversion programme of retail CHF loans (into EUR) with discount started in 4Q 2015, in line with the relevant Act. By the end of September 2016 the programme has been basically completed with 87% of the eligible portfolio being converted.

Consolidated earnings: HUF 201 billion adjusted after tax profit, eroding income margin and net interest income margin, massively declining risk costs, further improving credit quality trends, increasing DPD90+ coverage

The consolidated accounting profit was HUF 202.5 billion in 2016 versus HUF 63.2 billion posted in 2015. Against the last couple of years this time adjustment items had a limited impact on the annual accounting profit.

The adjusted 2016 ROE improved to 15.2% (+5.5 pps y-o-y), whereas the ROA reached 1.8% (+0.7 pp y-o-y). Based on the accounting profit the annual ROE reached 15.3%. In case the accounting ROE was calculated with a CET1 ratio of 12.5% targeted by the management, the ROE would be 17.9%.

During the course of 2016 the Bank booked all-in +HUF 1.3 billion adjustments which is materially different compared to 2014 or 2015 (–HUF 220 billion and –HUF 57 billion respectively).

In 2016 the adjustment items were as follows:

- In 2016 the banking taxes paid by Group members resulted in an after tax negative impact of HUF 13.9 billion, including the Hungarian special tax of financial institutions and the Slovakian banking levy. As for the Hungarian banking tax, the base for calculating the 2016 levy did not change, i.e. it remained the adjusted total assets at the end of 2009; the applicable upper rate, however, was reduced to 0.24%.
- The proceeds from the sale of OTP Group members' stake in Visa Europe has been transferred in 2Q 2016. The cash transfer affected five group members: OTP Bank, DSK Bank, OTP Bank Romania, OTP Bank Croatia and OTP Bank Slovakia. The after tax impact of the transaction represented HUF 13.2 billion (HUF 15.9 billion before tax) which included the realized cash transfer (HUF 9.6 billion after tax) and the discounted present values of deferred earn-out components due in 3 years and the C-type VISA Inc. shares (HUF 0.8 billion and HUF 2.8 billion respectively).

  The P&L impact of the VISA transaction was eliminated from the individual group members' quarterly P&L and was presented among the adjustment items on consolidated level.

  The originally calculated cash component (EUR 34.2 million before tax) has been already recognized in 4Q 2015 within the Comprehensive Income Statement on the Fair Value Adjustment of Available for Sale Securities line.
- In 2016 further impairments were booked in relation to the investment in the Ukrainian Factoring company under Hungarian Accounting Rules. While under IFRS they had direct effect neither on the consolidated balance sheet nor on the P&L, there was a related positive tax shield of altogether HUF 11.6 billion that added to the Group's accounting profit according to International Financial Reporting Standards as adopted by the European Union (IFRS).
- Based on the ruling of the Supreme Court on 16 December 2016 related to a fine imposed earlier by the Hungarian Competition Authority a HUF 1.9 billion positive item emerged (after tax).
- In Hungary the switching from Hungarian Accounting Rules (HAR) into IFRS from January 2017 resulted in a negative impact in the amount of HUF 5.8 billion.

  In Hungary it is mandatory for credit institution to shift from HAR to IFRS, but the deadline is optional: it can happen either from 2017 or 2018. In 3Q 2016 OTP Bank and several other Group members officially notified the National Bank of Hungary, the National Tax and Customs Administration, as well as the Central Statistical Office about their intention to implement the shift to IFRS from 2017.

  Accordingly, after the switch the IFRS financials will be used for the corporate income tax calculation, however the shift will have a one-off tax effect. The reason is that there are different book value calculation rules for subsidiary investments under HAR and IFRS (under the latter the book value was calculated based on the historical

FX rates, whereas under HAR there was a constant FX revaluation, and there were differences in accounting of goodwill, too). So far the Group treated those differences as permanent, however in accordance with the act on corporate income tax and the decision about the switch to IFRS, by 30 September those differences must be accounted for as temporary differences. Due to these differences in the subsidiary investments' book value calculation rules under the two accounting standards, in 2016 deferred tax liability was booked in the total amount of HUF 5.8 billion. In the adjusted P&L structure this item was presented on consolidated level among the adjustment items on the 'Expected corporate tax impact of switching to IFRS from HAR in Hungary' line.
Due to FX rate moves there was a tax shield effect in the adjusted P&L of OTP Core in 3Q and 4Q, too (inducing a tax saving of altogether HUF 0.6 billion). Simultaneously, the same amount (but with negative sign) was shown on consolidated level on the above mentioned adjustment line.
- Effective from 1 January 2017 the Hungarian corporate tax rate was cut uniformly to 9% and the move implied revaluation of deferred tax assets and liabilities at Hungarian Group members. These revaluations had a total impact of –HUF 2.7 billion stemming from two components: on one hand there was a –HUF 6.1 billion P&L impact booked among the adjustment items. Also, the revaluation impact booked directly against equity in 4Q 2016 is +HUF 3.4 billion. This item is owing to the revaluation of deferred tax liabilities related to the mark-to-market valuation gains of AFS (available for sale) securities booked directly against equity (in the Comprehensive Income Statement).
- HUF 0.4 billion dividend and net cash transfer (after tax).

In 2016 OTP Group posted HUF 201.2 billion adjusted after tax profit (+67% y-o-y). The tax burden increased by almost HUF 18 billion y-o-y, but the effective tax rate remained almost unchanged (17.8%). The operating income eroded by 7%, however it was comfortably offset by lower risk costs which plummeted to around one third in the base period.
Within the annual consolidated adjusted after tax profit significant shift has happened in case of individual contributions: after posting losses in the last two years, the Russian subsidiary realized above HUF 20 billion profit after tax, while the Ukrainian bottom line result reached HUF 10.2 billion. The y-o-y improvement was HUF 35.6 billion and HUF 50.5 billion, respectively, which mainly drove the y-o-y earnings improvement on Group level. Despite a y-o-y decline in their net results, OTP Core (HUF 122.2 billion) and DSK Bank (HUF 47.4 billion) still maintained their dominant position. Material improvement was realized in Croatia (HUF 3.8 billion), as well as at Merkantil Group (HUF 2.6 billion) and OTP Fund Management (HUF 6.7 billion). Out of foreign subsidiaries Slovakia and Montenegro turned into red (–HUF 2.2 billion and 1.8 billion, respectively) as a result of higher risk costs. Furthermore, the Russian online operation, Touch Bank remained a loss maker in 2016, too with –HUF 5.9 billion.
Within 2016 total income the net interest income dropped by 6%. Despite performing loan volumes expanded by 6% y-o-y (FX-adjusted), their average volume was fairly stable, thus the main reason behind lower NII was the eroding net interest margin. The lower NIM (4.74%, –37 bps y-o-y) was mainly due to the declining overall interest rate environment and the dilution effect of the increasing balance sheet. The average of the quarterly NIMs however showed a higher annual rate (4.81%). The lower interest rate environment took its toll almost at all Group members: in 2016 only the Croatian subsidiary managed to increase its NII in HUF terms. In local currency terms, however both Russia and Ukraine achieved higher NII (+2.5% in RUB and +7.3% in UAH terms, respectively).
Net fees and commissions had a good run (+5% y-o-y) supported mainly by strengthening lending activity and stronger transactional turnover. Other net non-interest income increased by 13% y-o-y. As a result total income fell short of the base period by 2% y-o-y.
Operating expenses grew by 2% y-o-y. Higher personnel expenses reflected the impact of

on-going wage inflation in several countries, while administrative expenses grew due to higher marketing spending induced by stronger lending activity, but also to higher contributions paid to regulatory bodies and higher IT costs.

The FX-adjusted consolidated loan portfolio grew by 3% y-o-y. Given the significant volumes of sold and written off non-performing exposures, volume trends in performing book would give a more realistic picture. Accordingly, DPD0–90 volumes increased by 6% y-o-y. Within that the performing portfolio at OTP Core advanced by 12% y-o-y, true, also reflecting the impact of the AXA portfolio take-over in 4Q. Without the AXA-effect volumes would have increased by 3% y-o-y. In Ukraine and Bulgaria volumes expended quite remarkably (+5% and 4% y-o-y), whereas in Russia the strong 4Q loans sales broke the declining trend and the overall portfolio started growing again even in y-o-y comparison.

As for the major credit categories: on consolidated level the large corporate exposure and the SME book increased by 12 and 13% respectively, mainly due to the strong Bulgarian and Hungarian performance. In the retail segment the performing consumer book grew by 2% y-o-y and the mortgage book by 5%. Without AXA-effect the mortgage volumes would have contracted by 3% y-o-y.

Despite the on-going interest rate reduction the FX-adjusted deposit volumes grew by 6% y-o-y. As a result the consolidated net loan-to-(deposit+retail bonds) ratio remained almost flat (66%).

The volume of issued securities declined by 39% y-o-y, redemptions occurred mainly at OTP Core. The outstanding volume of subordinated bonds and loans dropped by 67% y-o-y. In September an LT2 facility matured and was repaid with EUR 500 million face value. The Bank did not buy back subordinated debt during 2016.

The consolidated volume of securities reached HUF 2,934 billion by the end of 2016 (+18% y-o-y); the dominant part was government securities. In 4Q 2016 the Bank had an option to redeem its Perpetual bonds and exchangeable bonds (ICES) after the elapse of the first 10 years of maturity, but the issuers' management did not exercise its right. In both cases there was a change in the original conditions of the coupon: in case of the Perpetual bonds the 5.875% annual coupon, for ICES the 3.95% annual coupon changed in both cases into 3M EURIBOR +300 bps. A lower interest payment obligation resulted in savings on interest expense of HUF 0.7 billion in 4Q 2016 at the Corporate Centre.

By end-December 2016 the Group's liquidity position was comfortably stable: the operative liquidity reserves of the Group comprised EUR 8.1 billion equivalent.

Similar to the previous years, Group members sold or wrote off non-performing exposures in 2016 with a value of HUF 172 billion (FX-adjusted).

In line with the management's original expectation and supported by the improving macroeconomic environment overall credit quality trends continued to be favourable: new DPD90+ volumes (adjusted for FX and without the effect of sales and write offs) grew by HUF 82 billion versus HUF 133 billion a year ago. In 2016 HUF 15 billion DPD90+ loan volume growth was explained by the AXA portfolio take-over. The most meaningful improvement was witnessed in Russia, whereas in Hungary and Bulgaria practically there was no further deterioration and Ukraine showed a promising picture, too. The consolidated DPD90+ ratio declined to 14.7% (–2.3 pps y-o-y). In Hungary the rate dropped to 9.8%, last time the DPD90+ ratio was below 10% in 2010. The DPD90+ total coverage stood at 96.8% (+3.4 pps y-o-y).

OTP Core: marginally lower adjusted net earnings, eroding NIM, increasing loan portfolio, favourable credit quality trends with the DPD90+ ratio dropping below 10%

The adjusted after tax profit of **OTP Core** (basic activity in Hungary) reached HUF 122.2 billion in 2016, underpinning a 1% y-o-y decline.

The profit before tax improved by 2% y-o-y, within that the operating income declined by

16% as a result of lower net interest income (–6%) and higher operating expenses (+7%). The net interest margin (3.36%) eroded by 25 bps y-o-y mainly due to lower interest rate environment. Most of the variable-rate assets are priced on 3 months BUBOR, its level dropped from 1.35% at the beginning of the year to 0.37% in late December.

The y-o-y decrease in operating income was offset by significantly lower risk costs. While total provisions in 2015 comprised HUF 25.6 billion, in 2016 HUF 6.1 billion total provisions (within that HUF 14 billion provisions for loan losses) were released.

The loan portfolio quality demonstrated further improvement: the FX-adjusted DPD90+ volume formation (without sales and write-offs) was HUF 12 billion (versus a decline of HUF 11 billion in 2015), however HUF 15 billion growth was related to the AXA portfolio consolidation in 4Q 2016. The total volume of DPD90+ book declined by around HUF 34 billion y-o-y as a result of sales and write-offs. Consequently, the DPD90+ ratio dropped below 10% (9.8%, –2.3 pps y-o-y) for the first time since 2010. The coverage of DPD90+ loans by total allowances for loan losses declined to 82.7% from end-3Q 86.5%. If the AXA portfolio hadn't been taken over net of allowances for loan losses, the coverage would have stood at 86.3% in 4Q.

The annual operating expenses grew by 7%: on one hand contributions to different regulatory bodies increased by HUF 3 billion y-o-y, and the strengthening business activity was coupled with higher marketing costs. The y-o-y increase was partially related to the AXA deal.

The sector-level turnaround in lending activity can be witnessed at OTP Bank, too. Performing volumes increased by 12% y-o-y (without AXA by 5%). The strongest improvement was posted in the corporate and SME sector (+15% and +11% y-o-y, respectively). As for the retail segment, performing volumes including AXA increased by 12% y-o-y, without it the erosion was 3%. The annual volume of portfolio amortization still exceeded that of the new flows. New mortgage originations continued to be meaningful, new flows grew by 40% y-o-y. OTP Bank maintained its leading position: out of new yearly flows it captured 29.1% in 2016. OTP Bank plays a dominant role in originating subsidized mortgages; in 2016 around 75% of new applications were submitted to the Bank. OTP also maintained its leading position in originating CSOK-loans (Housing Subsidy Scheme for Families): every second approved CSOK application was registered with the Bank. Positive that 67% of applications were coupled with the Bank's own mortgage loan offers. The performing consumer book grew by 4% y-o-y.

The FX-adjusted deposit book with retail bonds grew by 8% y-o-y. The year-end volume of deposits taken over from AXA comprised about HUF 60 billion. As a result, the net loan-to-(deposit+retail bonds) ratio grew marginally to 49% (+1 pp y-o-y, FX-adjusted).

In 2016 **Merkantil Group** posted HUF 2.6 billion adjusted profit after tax. The y-o-y 60% increase was due the stable total income (+3%) and lower risk costs and operating expenses. The FX-adjusted gross loan volumes started increasing and grew by 5% y-o-y, both the corporate exposures and car loans expanded. New car loan origination increased by 9% y-o-y.

OTP Fund Management posted HUF 6.7 billion after tax profit (+38% y-o-y). The outstanding performance was driven by higher success fees. The volume of total assets under management moderately declined y-o-y (2016: HUF 1,530 billion). The company retained its market leading position with around 20% market share.

Foreign subsidiaries' performance: meaningful, though y-o-y declining Bulgarian profit, strong Russian and Ukrainian, and improving Croatian, Romanian and Serbian performance, net losses in Slovakia and Montenegro due to prudent provisioning

The **Bulgarian subsidiary's** profit contribution is still the second largest within OTP Group despite its 2016 net earnings of HUF 47.4 billion felt short the base period by 10%.

The annual operating profit declined by 4% with total income eroding by 2% y-o-y. The lower net interest income (–5%) was due to eroding net interest margin (4.63%). The fees and commissions income remained favourable (+13% y-o-y) mainly due to dynamic corporate lending activity, but higher deposit and transaction related fee income played a role, too.
The credit quality improved further with the DPD90+ ratio declining to 11.5% (–3.4 pps y-o-y), the coverage of DPD90+ volumes by total allowances for loan losses surged to 108%. The DPD90+ volumes (without sales and write offs, FX-adjusted) also showed favourable trends: in 2015 they increased by HUF 6 billion, whereas in 2016 the decline was HUF 3 billion. Total risk costs grew by 19% y-o-y, within that provisions for loan losses moderated by 11% y-o-y. As a result the annual risk cost rate was 1.12% (–14 bps y-o-y).
The FX-adjusted gross loan portfolio stagnated y-o-y mainly as a result of the non-performing portfolio sales and write-offs. The FX-adjusted performing volumes, however, grew by 4%. Due to the strong new loan origination in the large corporate segment the corporate book advanced by +15% y-o-y. The retail segment decreased despite better new loan sales: the performing mortgage book melted down by 1%, while the consumer book stagnated.
Due to the profitable operation of the bank and its strong reputation the FX-adjusted deposits advanced by 4% y-o-y. As a result, the net loan to deposit ratio declined further to 65%. DSK Bank's profitability and efficiency is outstanding: its annual ROE stood at 18.9%, whereas its cost-to-income ratio was 37.7%.
There was a remarkable turnaround in the performance of the Russian subsidiary (without Touch Bank) and the bank posted HUF 20.5 billion profit against a loss of HUF 15.1 billion a year ago. In RUB terms the bank realized its third best annual result. The material improvement was due to the y-o-y 58% drop in risk costs which easily offset the weaker operating income (–4% y-o-y). Despite the average depreciation of RUB against HUF eased a lot (2015: –25%, 2016: –8%), earning trends are more realistically presented in RUB terms.
Accordingly, the annual operating income improved by 5%, within that the net interest income grew by 3%, fees and commissions by 7% respectively. The stronger NII was supported by higher net interest margins (in RUB the NIM improved by 2.5 pps), the average performing loan portfolio declined.
Operating expenses moderated by 1% despite the average annual inflations was around 7%.
In line with the stabilization of the overall Russian macroeconomic situation credit quality trends turned to be positive: the FX-adjusted DPD90+ inflow without sales and write-offs amounted to HUF 110 billion in 2015 and HUF 48 billion in 2016. Also as a result of non-performing portfolio sales/write offs the DPD90+ ratio changed to 20.2%, its total provisioning coverage was 117.6%.
The FX-adjusted performing portfolio increased by 1% y-o-y. With POS-lending being in the focus of business activity, performing POS-volumes advanced by 17% y-o-y. Credit card volumes further eroded, but the cash loan portfolio grew by 7%.
The FX-adjusted deposit book eroded by 6% y-o-y. As a result, by the end of December the net loan-to-deposit ratio stood at 108%.
The annual risk cost rate (in HUF terms) was 7.7%, positive that within the consumer loan portfolio both POS and cash loan risk cost rates declined (to 6.1% and 7.7% respectively), only the credit card loans' CoR exceeded 12%.
The annual net interest margin (in HUF) was 16.25% (+0.69 pps y-o-y), whereas the ROE stood at 19.1%.
Touch Bank, the Bank's digital bank in Russia operating under the same banking license, but as a separate business line still remained in red after the second year of operation and posted HUF 5.9 billion loss (+22% y-o-y) mainly due to the operating expenses surging by 25% y-o-y. Parallel with the client acquisition volumes have been gradually building up, however on the asset side the increase was slower than expected. By the end of 2016 deposit volumes reached HUF 20.5 billion equivalent. From 2Q 2016 the sale of credit card loans and

revolving cash loan facilities started, too but volumes remained marginal.

Following massive losses in the last two years in 2016 the **Ukrainian subsidiary** turned into profit again, its annual net earnings reached HUF 10.2 billion.

Key driver in profitability improvement was the sharp decline in risk costs.

P&L developments are better demonstrated in UAH terms given the volatility of the Ukrainian currency. The average FX-rate of the local currency against HUF y-o-y depreciated by 15%. Accordingly the annual operating income increased by 6% y-o-y; stronger total revenues (+8% y-o-y) offset the impact of higher operating expenses (+11%). The expense growth, however, felt short of the annual rate of inflation (13.9%). Positive that the net interest income improved by 7% y-o-y. The better net interest income was related to the higher volume of performing loans, but also to the prepayment of intragroup funding. The annual net interest margin reached 8.83% (+0.7 pp y-o-y).

Surging net fee and commission income (+29% y-o-y) was explained by base effect and strengthening business activity.

Credit quality trends demonstrated definite improvement: following a significant portfolio clean-up in 2015 in 2016 risk costs sharply declined (–84% y-o-y). The DPD90+ volume increase (FX-adjusted, without the effect of loan sales and write-offs) normalized at levels seen already in 2015 (HUF 11 billion). The DPD90+ ratio moderated to 41.9% (–6.6 pps y-o-y), its total provisioning coverage is stable and exceeds 118%.

The FX-adjusted performing portfolio increased by 5% y-o-y. Within that the retail book declined by 5%, however, the corporate exposure advanced by 8%. The mortgage loan sales are still suspended and the credit card loan origination is fairly subdued. POS origination, however demonstrates gradual

improvement: new placements grew by 62% y-o-y and performing volumes by 49% respectively.

The FX-adjusted deposit book grew by 9% q-o-q and by 13% y-o-y. The net loan-to-deposit ratio remained practically flat at 84% by December 2016.

During the course of the year the total outstanding intragroup exposure towards the Ukrainian operation declined by HUF 61 billion and dropped to HUF 46 billion equivalent by end-2016.

The **Romanian subsidiary** realized HUF 1.65 billion net profit in 2016 which underpins a y-o-y 12% improvement. The annual operating income increased by 41% y-o-y: somewhat lower total income was easily offset by a 16% decline in operating expenses which already reflects the cost synergy impacts of the Banca Millennium acquisition in 2015. Within core banking revenues the net interest income dropped by 11% y-o-y partly as a result of the bank's own conversion programme launched for CHF mortgage customers. The 80 bps erosion in the net interest margin (3.29%) is also explained by the impact of the conversion programme.

The FX-adjusted gross loan portfolio shrank by 3% y-o-y. The lower retail volumes are reasoned by the partial debt forgiveness offered in the bank's own CHF mortgage conversion programme. The 2% y-o-y growth of the corporate book partially offset that impact. As a result of a moderate growth in deposits the net loan-to-deposit ratio dropped to 134% (–8 pps y-o-y, FX-adjusted). The DPD90+ ratio somewhat increased to 17.4%; its total provisioning coverage improved and reached 81.7%.

The **Croatian subsidiary** managed to improve its annual results and posted HUF 3.8 billion profit in 2016 (+27% y-o-y). The annual operating income grew by 25%, whereas risk costs dropped by 22%. The annual NIM improved by 39 bps y-o-y and reached 3.51%. The FX-adjusted loan portfolio stagnated partly as a reflection of the retail CHF exposure settlement. The credit quality improved, the DPD90+ ratio decreased (12.1%, –1 pp y-o-y), its total provisioning coverage improved substantially (87.6%, +16.7 pps y-o-y).

The **Slovakian subsidiary** couldn't repeat its profitable operation seen in the last two years and posted a loss of HUF 2.2 billion in 2016. The turnaround in net earnings to a great extent is reasoned by increasing risk costs. Operating income improved by 3% y-o-y, however, risk costs surged by 75%. Positive that despite the eroding interest environment the bank managed to stabilize its annual net interest margin (3.15%). The FX-adjusted loan portfolio increased by 2% both y-o-y and q-o-q, of that the mortgage book grew the fastest. The credit quality deteriorated, the DPD90+ ratio grew to 11.2% (+1.5 pps y-o-y), its total provisioning coverage improved significantly (74.2%, +11.2 pps y-o-y).

The **Serbian subsidiary** posted a small profit in 2016 (HUF 39 million). Operating income suffered a significant setback (–46% y-o-y), however, it was offset by lower risk costs (–59%). The FX-adjusted portfolio kept increasing (+12% y-o-y); both the retail and corporate segments demonstrated strong expansion with SME being the fastest growing portfolio. The DPD90+ ratio declined further (32.7%), its total provisioning coverage was stable (74.2%).

The **Montenegrin subsidiary** failed to continue its profitable operation witnessed since 2013 and the bank posted HUF 1.8 billion loss. The major reason behind that was the y-o-y doubling risk cost, but the y-o-y 15% lower operating income also took its toll.

The FX-adjusted loan book shrank by 4% y-o-y, while deposits grew by 1%. The DPD90+ ratio decreased (42.2%), the total provisioning coverage of the DPD90+ portfolio surged by 10pps y-o-y (92.9%).

Consolidated and stand-alone capital adequacy ratio (in accordance with BASEL III)

By the end of December 2016 the consolidated Common Equity Tier1 ratio under IFRS was 13.5%, +0.2 pp q-o-q. Neither the annual net

result was included, nor was the accrued dividend amount deducted from the regulatory capital when calculating the IFRS consolidated capital adequacy ratios. Including those items the CET1 ratio would be 15.8%.
OTP Bank's standalone Common Equity Tier1 ratio stood at 24.8% in December 2016, the accrued dividend amount and retained earnings are already reflected in this number.

Credit rating, shareholder structure

On 29 June Moody's changed the outlook on **OTP Bank's** 'Baa3' long-term HUF deposit rating from stable to positive and affirmed the long-term foreign currency deposit rating at 'Ba2' with positive outlook. On 7 November 2016 OTP Bank's long-term foreign currency deposit rating was upgraded by 2 notches to 'Baa3' from 'Ba2' with stable outlook, the short-term foreign currency deposit rating improved from 'Not Prime' to 'Prime-3'; whereas its long-term HUF deposit rating remained 'Baa3' with positive outlook along with its short-term HUF deposit rating at level 'Prime-3'.

On 29 June 2016 Moody's assigned a 'Ba1' l ocal currency issuer rating to **OTP Mortgage Bank** with positive outlook, while its deposit ratings were withdrawn since the bank is a specialized financial institution.
On 7 November 2016 the mortgage bond ratings were upgraded by one notch to 'Baa1' by Moody's.
Furthermore, on 21 July 2016 S&P upgraded the ratings of **OTP Bank** and **OTP Mortgage Bank** from 'BB' to 'BB+', at the same time the outlook was changed from positive to stable.
In February 2015 the **Russian subsidiary** initiated the cancellation of the rating service with Moody's and on 11 May 2016 Moody's has withdrawn the Russian bank's ratings.
OTP Bank Russia holds a 'BB' rating from Fitch with stable outlook.
Regarding the ownership structure of the Bank, by 30 December 2016 the following investors had more than 5% influence (voting rights) in the Company: the Rahimkulov family (8.30%), MOL (the Hungarian Oil and Gas Company, 8.69%), the Groupama Group (8.21%) and OPUS Securities (5.25%).

POST BALANCE SHEET EVENTS

Hungary

- On 14 February 2017, the flash estimate of the Hungarian GDP growth was published, accordingly the economy grew by 2% y-o-y, while the expansion in 4Q represented 1.6% y-o-y.
- On 15 February, OJB2021/I covered bonds were issued with a face value of HUF 85 billion within OTP Mortgage Bank Ltd. covered bond programme of HUF 1,000 billion framework. The bonds are rated 'Baa1' by Moody's

Romania

- On 7 February 2017, the Romanian Constitutional Court ruled that the Act on obliging banks to convert CHF mortgages into local currency at rates prevailing at origination was entirely unconstitutional.

Croatia

- On 27 January 2017; Fitch rating agency modified the outlook of Croatia from negative to stable, while the country's long-term FX and HRK 'BB' credit rating was confirmed.

Russia

- On 17 February 2017 Moody's changed the negative outlook for stable on the Russian sovereign rating with confirming all the previous ratings.

CONSOLIDATED AFTER TAX PROFIT BREAKDOWN BY SUBSIDIARIES (IFRS)[2]

	2015 HUF million	2016 HUF million	Change %/pps
Consolidated after tax profit	**63,171**	**202,452**	**220**
Adjustments (total)	**(57,073)**	**1,276**	**(102)**
Consolidated adjusted after tax profit without the effect of adjustments	**120,240**	**201,176**	**67**
Banks total without one-off items[1]	117,253	189,950	62
OTP CORE (Hungary)[2]	123,359	122,190	(1)
Corporate Centre (after tax)[3]	(4,286)	(5,868)	37
OTP Bank Russia[4]	(15,101)	20,535	(236)
Touch Bank (Russia)[5]	(4,840)	(5,898)	22
OTP Bank Ukraine[6]	(40,312)	10,202	(125)
DSK Bank (Bulgaria)[7]	52,537	47,385	(10)
OBR (Romania)[8]	1,480	1,655	12
OTP banka Srbija (Serbia)[9]	(385)	39	(110)
OBH (Croatia)[10]	2,968	3,783	27
OBS (Slovakia)[11]	924	(2,223)	(341)
CKB (Montenegro)[12]	909	(1,849)	(303)
Leasing	1,786	3,968	122
Merkantil Bank + Car, adj. (Hungary)[13]	1,625	2,605	60
Foreign leasing companies (Croatia, Bulgaria, Romania)[14]	161	1,363	747
Asset Management	2,713	6,723	148
OTP Asset Management (Hungary)	4,817	6,658	38
Foreign Asset Management Companies (Ukraine, Romania, Bulgaria)[15]	(2,104)	65	(103)
Other Hungarian Subsidiaries	(323)	1,903	(689)
Other Foreign Subsidiaries (Slovakia, United Kingdom, Montenegro, Romania, Serbia, Croatia, Belize)[16]	352	403	14
Eliminations	(1,535)	(1,771)	15
Total adjusted after tax profit of HUNGARIAN subsidiaries[17]	123,656	125,718	2
Total adjusted after tax profit of FOREIGN subsidiaries[18]	(3,411)	75,458	
Share of foreign profit contribution, %	**(3)**	**38**	

[2] Belonging footnotes are in the Supplementary data section of the Report.

CONSOLIDATED STATEMENT OF RECOGNIZED INCOME[3]

Main components of the Statement of recognised income	2015 HUF million	2016 HUF million	Change %
Consolidated after tax profit	**63,171**	**202,452**	**220**
Adjustments (total)	**(57,073)**	**1,276**	**(102)**
Dividends and net cash transfers (after tax)	144	412	186
Goodwill/investment impairment charges (after tax)	6,683	11,552	73
Special tax on financial institutions (after corporate income tax)	(29,383)	(13,950)	(53)
Impact of fines imposed by the Hungarian Competition Authority (after tax)	(662)	1,922	(390)
Effect of acquisitions (after tax)	1,550	0	(100)
One-off impact of regulatory changes in relation to consumer contracts and the impact of the related methodological changes in Hungary (after tax)	4,594	0	(100)
Expected one-off impact of regulatory changes related to CHF consumer contracts in Croatia (after tax)	(6,331)	0	(100)
One-off impact of regulatory changes related to FX consumer contracts in Serbia (after tax)	(211)	0	(100)
Expected one-off impact of the CHF mortgage loan conversion programme and regulatory changes related to mortgage loans in Romania (after tax)	(25,492)	0	(100)
Risk cost created toward Crimean exposures from 2Q 2014 until 4Q 2015 (after tax)	(169)	–	
Risk cost created toward exposures to Donetsk and Luhansk from 3Q 2014 until 4Q 2015 (after tax)	(2,258)	–	
Corporate tax impact of switching to IFRS from HAR in Hungary	0	(5,766)	
Revaluation of deferred taxes recognized in the P&L due to the corporate tax rate cut in Hungary	0	(6,054)	
Gain on the sale of Visa Europe shares (after tax)	0	13,160	
Revaluation of reverse mortgage portfolio of OTP Life Annuity Ltd. Simultaneous with regulatory changes (after tax)	(5,539)	0	(100)
Consolidated adjusted after tax profit without the effect of adjustments	**120,245**	**201,176**	**67**
Before tax profit	**146,057**	**244,772**	**68**
Operating profit	**362,594**	**335,900**	**(7)**
Total income	**754,912**	**736,316**	**(2)**
Net interest income	**553,659**	**521,949**	**(6)**
Net fees and commissions	**167,250**	**175,966**	**5**
Other net non-interest income	**34,002**	**38,400**	**13**
Foreign exchange result, net	18,476	12,941	(30)
Gain/loss on securities, net	9,197	5,655	(39)
Net other non-interest result	6,329	19,803	213
Operating expenses	**(392,317)**	**(400,416)**	**2**
Personnel expenses	(187,806)	(191,443)	2
Depreciation	(45,463)	(44,428)	(2)
Other expenses	(159,048)	(164,545)	3
Total risk costs	**(220,709)**	**(93,218)**	**(58)**
Provision for loan losses	(211,663)	(73,223)	(65)
Other provision	(9,046)	(19,995)	121
Total one-off items	**4,172**	**2,090**	**(50)**
Revaluation result of FX swaps at OTP Core*	(679)	–	
Gain on the repurchase of own Upper and Lower Tier2 Capital	0	0	
Result of the treasury share swap at OTP Core	4,852	2,090	(57)
Corporate taxes	**(25,813)**	**(43,596)**	**69**
Performance indicators	**2015**	**2016**	**%/pps**
ROE (from accounting net earnings)	5.1%	15.3%	10.2
ROE (from accounting net earnings, on 12.5% CET1 ratio)	5.3%	17.9%	12.5
ROE (from adjusted net earnings)	9.6%	15.2%	5.5
ROA (from adjusted net earnings)	1.1%	1.8%	0.7
Operating profit margin	3.34%	3.05%	(0.29)
Total income margin	6.96%	6.69%	(0.28)
Net interest margin	5.11%	4.74%	(0.37)
Net fee and commission margin	1.54%	1.60%	0.06
Net other non-interest income margin	0.31%	0.35%	0.04
Cost-to-asset ratio	3.62%	3.64%	0.02
Cost/income ratio	52.0%	54.4%	2.4

* From 2Q 2015 this item (booked within the net interest income of OTP Core from accounting point of view) is not shown separately among the one-off items, but on the net interest income line.

[3] Adjustments on the consolidated Statement of recognized income are summarised in the Supplementary data section of this report.

Performance indicators (continued)	2015	2016	%/pps
Risk cost for loan losses-to-average gross loans	3.18%	1.13%	(2.06)
Risk cost for loan losses-to-average FX-adjusted gross loans	3.15%	1.12%	(2.03)
Total risk cost-to-asset ratio	2.04%	0.85%	(1.19)
Effective tax rate	17.7%	17.8%	0.1
Non-interest income/total income	27%	29%	2
EPS base (HUF) (from unadjusted net earnings)	242	765	216
EPS diluted (HUF) (from unadjusted net earnings)	242	765	216
EPS base (HUF) (from adjusted net earnings)	459	761	66
EPS diluted (HUF) (from adjusted net earnings)	458	761	66
Comprehensive Income Statement	**2015**	**2016**	**%**
Consolidated after tax profit	63,171	202,452	220
Fair value adjustment of securities available-for-sale (recognised directly through equity)	(246)	11,824	
Fair value adjustment of derivative financial instruments designated as cash-flow hedge	0	0	
Fair value adjustment of strategic open FX position hedging net investment in foreign operations	431	525	22
Foreign currency translation difference	(44,301)	24,554	(155)
Change of actuarial losses (IAS 19)	(171)	61	(136)
Net comprehensive income	**18,884**	**239,416**	
o/w Net comprehensive income attributable to equity holders	19,582	238,775	
Net comprehensive income attributable to non-controlling interest	(698)	641	(192)
Average exchange rate	**2015**	**2016**	**Change**
	HUF	**HUF**	**%**
HUF/EUR	310	311	1
HUF/CHF	291	286	(2)
HUF/USD	279	281	1

ASSET-LIABILITY MANAGEMENT

Similar to previous periods OTP Group maintained a strong and safe liquidity position...

The primary objective of OTP Group in terms of asset-liability management has not changed, that is to ensure that the Group's liquidity is maintained at a safe level.

Refinancing sources of the European Central Bank are still available for OTP, thus the refinancing risk of maturing FX mortgage bonds is low. As a result of the high level of liquidity reserves, the Group could safely function without considerable fund raising, only refinancing loan of Funding for Growth Scheme was used in the amount of HUF 7 billion (HUF 242 billion was the total used amount at group level as at end of 2H 2016).

After the non-refinanced EUR 500 million subordinated debt maturity in September the total liquidity reserves of OTP Bank remained steadily and substantially above the safety level. As of 31 December 2016 the gross liquidity buffer was above EUR 8 billion equivalent. This buffer is significantly higher than the maturing debt within one year and the reserves required to protect against possible liquidity shocks. Due to governmental FX lending measures and FX loan conversion FX liquidity need of the Group has considerably declined. The maturing long-term FX-swaps were not refinanced and the ECB refinancing facilities are currently not utilized the FX liquidity reserves are at safe levels (at EUR 1.73 billion on 31 December 2016).

The volume of issued securities decreased by 39% y-o-y. The yearly decrease is mainly explained by the shrinkage of Hungarian retail and institutional bonds, the reclassification of Merkantil bonds into deposits in the amount of HUF 30 billion; additionally Hungarian mortgage bonds matured in the amount of about HUF 5.9 billion, and the volume of mortgage bonds issued by the Slovakian bank shrank by HUF 2.5 billion equivalent.

The volume of subordinated debt decreased by HUF 157 billion y-o-y, reasoned by a subordinated bond repayment of OTP Bank in the amount of EUR 500 million in 3Q.

...and kept its interest-rate risk exposures low.

Interest-rate risk exposure of OTP Group is determined primarily by the positions of OTP Bank Plc. and OTP Mortgage Bank Ltd. Due to the forint liabilities on OTP Bank's balance sheet, which respond to yield changes only to a moderate extent, the Bank has an interest-rate risk exposure resulting from its business operations. The Bank considers the reduction and closing of this exposure as a strategic matter. Consequently it has been reducing its interest-rate risk exposure through the purchase of fixed-rate government securities in order to offset the negative impact of declining yields on net interest income.

Market Risk Exposure of OTP Group

The consolidated capital requirement of the trading book positions, the counterparty risk and the FX risk exposure represented HUF 45.2 billion in total, primarily due to the capital requirement of the FX risk exposure. OTP Group is an active participant of the international FX and derivative market. Open FX positions of group members are restricted to individual and global net open position limits (overnight and intraday), and to stop-loss limits. The open positions of the group members outside Hungary except for the Bulgarian DSK Bank – the EUR/BGN exposure of DSK under the current exchange rate regime does not represent real risk – were negligible measured against either the balance sheet total or the regulatory capital. Therefore the group level FX exposure was concentrated at OTP Bank. Thus the main part of the FX exposure booked at OTP Bank – in line with the previous years' practice – was the strategic open FX position kept to hedge the currency risk of the expected FX-denominated net earnings (EUR 310 million for 2 years) of the main foreign subsidiaries.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF OTP GROUP

Main components of balance sheet	2015 HUF million	2016 HUF million	Change %
TOTAL ASSETS	**10,718,848**	**11,307,665**	**5**
Cash and amount due from banks	1,878,961	1,625,357	(13)
Placements with other banks	300,569	363,530	21
Financial assets at fair value	253,782	293,106	15
Securities available-for-sale	1,305,486	1,527,093	17
Net customer loans	5,409,967	5,736,232	6
Net customer loans (FX-adjusted*)	**5,454,536**	**5,736,232**	**5**
Gross customer loans	6,423,588	6,680,504	4
Gross customer loans (FX-adjusted*)	**6,483,245**	**6,680,504**	**3**
o/w Retail loans	4,323,854	4,398,239	2
Retail mortgage loans (incl. home equity)	2,328,706	2,357,614	1
Retail consumer loans	1,500,572	1,520,476	1
SME loans	494,577	520,149	5
Corporate loans	1,892,757	2,017,725	7
Loans to medium and large corporates	1,799,890	1,943,863	8
Municipal loans	92,867	73,862	(20)
Car financing loans	210,838	217,898	3
Bills and accrued interest receivables related to loans	55,795	46,641	(16)
Allowances for loan losses	(1,013,620)	(944,273)	(7)
Allowances for loan losses (FX-adjusted*)	(1,028,709)	(944,273)	(8)
Equity investments	10,028	9,836	(2)
Securities held-to-maturity	926,677	1,114,227	20
Premises, equipment and intangible assets, net	349,469	355,516	2
o/w Goodwill, net	95,994	104,282	9
Premises, equipment and other intangible assets, net	253,475	251,234	(1)
Other assets	283,909	282,770	0
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**10,718,848**	**11,307,665**	**5**
Liabilities to credit institutions and governments	533,310	543,775	2
Customer deposits	7,984,579	8,540,583	7
Customer deposits (FX-adjusted*)	**8,025,435**	**8,540,583**	**6**
o/w Retail deposits	5,699,031	6,139,337	8
Household deposits	4,773,719	5,141,627	8
SME deposits	925,312	997,711	8
Corporate deposits	2,306,862	2,385,603	3
Deposits to medium and large corporates	1,899,476	1,844,184	(3)
Municipal deposits	407,386	541,419	33
Accrued interest payable related to customer deposits	19,542	15,644	(20)
Issued securities	239,376	146,900	(39)
o/w Retail bonds	64,777	36,921	(43)
Issued securities without retail bonds	174,599	109,978	(37)
Other liabilities	493,140	578,300	17
Subordinated bonds and loans**	234,784	77,458	(67)
Total shareholders' equity	**1,233,659**	**1,420,649**	**15**
Indicators	**2015**	**2016**	**%/pps**
Loan/deposit ratio (FX-adjusted*)	80%	78%	(2)
Net loan/(deposit + retail bond) ratio (FX-adjusted*)	67%	66%	0
90+ days past due loan volume	1,085,694	975,952	(10)
90+ days past due loans/gross customer loans	17.0%	14.7%	(2.3)
Total provisions/90+ days past due loans	93.4%	96.8%	3.4

* For the FX adjustment, the closing cross currency rates for the current period were used to calculate the HUF equivalent of loan and deposit volumes in the base periods.

** The ICES bonds are considered as Tier2 debt, but accounting-wise they are treated as part of the shareholders' equity.

Consolidated capital adequacy – Basel3	2015	2016	pps
Capital adequacy ratio (consolidated, IFRS)	16.2%	16.0%	(0.2)
Tier1 ratio	13.3%	13.5%	0.3
Common Equity Tier1 ('CET1') capital ratio	13.3%	13.5%	0.3
Regulatory capital (consolidated)	1,064,383	1,079,064	1
o/w Tier1 Capital	873,124	911,328	4
o/w Common Equity Tier1 capital	873,124	911,328	4
Tier2 Capital	191,259	167,736	(12)
o/w Hybrid Tier2	92,093	89,935	(2)
Consolidated risk weighted assets (RWA) (Credit&Market&Operational risk)	6,576,258	6,730,467	2
o/w RWA (Credit risk)	5,245,874	5,344,636	2
RWA (Market & Operational risk)	1,330,384	1,385,831	4

Closing exchange rates	2015 HUF	2016 HUF	Change %
HUF/EUR	313	311	(1)
HUF/CHF	289	289	0
HUF/USD	287	294	2

OTP BANK'S HUNGARIAN CORE BUSINESS

OTP Core Statement of recognized income:

Main components of the Statement of recognised income	2015 HUF million	2016 HUF million	Change %
After tax profit without the effect of adjustments	123,359	122,194	(1)
Corporate income tax	(25,857)	(29,680)	15
Pre-tax profit	149,216	151,874	2
Operating profit	170,598	143,680	(16)
Total income	367,234	354,698	(3)
Net interest income	251,564	235,871	(6)
Net fees and commissions	97,480	100,213	3
Other net non-interest income	18,191	18,614	2
Operating expenses	(196,636)	(211,018)	7
Total risk costs	(25,555)	6,104	(124)
Provisions for possible loan losses	(21,550)	14,036	(165)
Other provisions	(4,005)	(7,933)	98
Total one-off items	4,172)	2,090	(50)
Revaluation result of FX swaps	(679)	-	0
Gain on the repurchase of own Upper and Lower Tier2 Capital	0	0	0
Revaluation result of the treasury share swap agreement	4,852	2,090	(57)
Revenues by Business Lines	**2015**	**2016**	**%**
RETAIL			
Total income	266,216	243,375	(9)
Net interest income	179,327	152,141	(15)
Net fees and commissions	83,510	87,333	5
Other net non-interest income	3,379	3,901	15
CORPORATE			
Total income	43,681	40,507	(7)
Net interest income	27,697	26,558	(9)
Net fees and commissions	14,997	12,808	(15)
Other net non-interest income	988	1,140	15
Treasury ALM			
Total income	55,626	66,824	20
Net interest income	44,540	57,172	28
Net fees and commissions	(1,102)	73	(107)
Other net non-interest income	12,187	9,579	(21)
Indicators	**2015**	**2016**	**pps**
ROE	10.3%	9.7%	(0.6)
ROA	1.8%	1.7%	0.0
Operating profit margin (operating profit/avg. total assets)	2.5%	2.0%	(0.4)
Total income margin	5.28%	5.06%	(0.22)
Net interest margin	3.62%	3.36%	(0.25)
Net fee and commission margin	1.40%	1.43%	0.03
Net other non-interest income margin	0.26%	0.27%	0.00
Operating costs to total assets ratio	2.8%	3.0%	0.2
Cost/income ratio	53.5%	59.5%	5.9
Cost of risk/average gross loans*	0.84%	(0.56%)	(1.40)
Cost of risk/average gross loans* (FX-adjusted)	0.82%	(0.56%)	(1.39)
Effective tax rate	17.3%	19.5%	2.2

- In 2016 OTP Core posted HUF 122.2 billion adjusted profit marking a 1% y-o-y decline
- The annual net interest income declined by 6% due to narrowing net interest margin
- On the total risk cost line the annual provisioning release represented HUF 6.1 billion
- Favourable credit quality trends remained intact, the DPD90+ ratio dropped below 10% (–2.3 pps y-o-y), the coverage decreased mainly because the AXA portfolio was taken over net of provisions (–3.1 pps y-o-y)

* Negative volume of Cost of risk/average gross loan volumes imply provision release.

P&L developments

Without the effect of adjustment items[4] **OTP Core** posted a profit after tax of HUF 122.2 billion in 2016 underpinning a 1% y-o-y decline.

The effective corporate income tax rate was 19.5% in 2016 practically the same as the Hungarian corporate tax rate. The tax shield effect on the revaluation of subsidiary investments as a result of HUF exchange rate moves caused HUF 3.1 billion tax saving in 2015, but resulted in HUF 2 billion additional tax payment in 2016. Since the switch from Hungarian Accounting Rules into IFRS financials became effective from January 2017 in Hungary, from 2017 the corporate tax line of OTP Core won't be distorted anymore by the tax shield related to the HUF exchange rate movements.

The annual profit before tax improved by 2% y-o-y since the 16% decline in operating result was offset by the massive decrease of total risk costs.

On the total risk costs line a release of 6.1 billion was recognized in 2016 versus HUF 25.6 billion total risk cost creation booked in 2015. Within that on the provisions for possible loan losses line HUF 14 billion release was recognized in 2016. The trend of credit quality improvement continued: the DPD90+ volumes adjusted for FX rate movements and sales and write offs grew by HUF 12 billion in 2016 versus HUF 11 billion in 2015.The take-over of the AXA portfolio itself increased the DPD90+ volumes by HUF 15 billion in 4Q 2016; without that the overall credit quality trends remained favourable. In 2016 overall DPD90+ volumes declined by HUF 34 billion y-o-y. These changes were influenced by non-performing loan sales and write offs, too: HUF 44 billion exposures were sold or written off in 2016. As a result, the DPD90+ ratio moderated by 2.3 pps y-o-y to 9.8%. The provision coverage ratio (82.7%) calculated as total provisions/ DPD90+ loans declined by 3.1 pps y-o-y, mainly explained by the AXA portfolio take-over net of provisions.

The annual total income eroded by 3%, within that the net interest income declined by 6% reasoned mainly by the y-o-y 25 bps lower net interest margin. The lower NIM was mainly driven by the declining interest rate environment that took its toll through lower deposit margins and lower gross interest income on customer loans. Furthermore, the structural changes within the loan book also had a negative NIM-effect as the share of corporate exposures with lower margins increased y-o-y.

The annual net fee and commission income increased by 3% y-o-y. The improvement was mainly due to stronger card-related fees induced by growing transactional turnover.

The annual other net non-interest income grew by 2% y-o-y.

Total one-off revenue items represented HUF 2.1 billion in 2016, mainly related to dividends received within the framework of the treasury share swap agreement.

Annual operating expenses increased by 7% y-o-y due to the following reasons: OTP had to pay y-o-y HUF 3 billion higher contributions into the National Deposit Protection Fund (OBA), the Investor Protection Fund (Beva) and the Resolution Fund. Furthermore, reviving business activity coupled with higher marketing spending, but higher deductible taxes and the one-off costs related to organizational changes occurring in 2Q played a role, too. Finally, at the Bank there was an average base salary increase of 4% in April 2016. The takeover of AXA businesses added almost HUF 640 million additional operating cost in 4Q 2016; two-third of this amount emerged on the personnel expenses line.

[4] Adjustments emerged in the presented periods: special tax on financial institutions, dividends and net cash transfers, goodwill impairment charges, impact of fines imposed by the Hungarian Competition Authority, one-off impact of regulatory changes in relation to consumer contracts, the impact of the related methodological changes and the revaluation of reverse mortgage portfolio of OTP Life Annuity Ltd., the gain realized on securities from the Visa Europe share transaction, the corporate tax impact of switching to IFRS from HAR in Hungary as well as the revaluation of deferred taxes recognized in the P&L due to the corporate tax rate cut in Hungary.

[5] In 4Q 2016 the closing rate of HUF typically depreciated q-o-q against the functional currencies of the subsidiary investments. Therefore a revaluation gain was realized under Hungarian Accounting Standards when translating the value of these subsidiary investments into HUF, increasing the corporate tax base. So, the corporate income tax both under HAS and IFRS went up ceteris paribus.

Main components of OTP Core's Statement of financial position:

Main components of balance sheet closing balances	2015 HUF million	2016 HUF million	Change %
Total Assets	6,774,200	7,247,297	7
Net customer loans	2,145,475	2,398,694	12
Net customer loans (FX-adjusted)	**2,142,887**	**2,398,694**	**12**
Gross customer loans	2,394,362	2,610,277	9
Gross customer loans (FX-adjusted)	**2,392,865**	**2,610,277**	**9**
Retail loans	1,624,516	1,748,278	8
Retail mortgage loans (incl. home equity)	1,163,765	1,274,873	10
Retail consumer loans	316,985	315,357	(1)
SME loans	143,766	158,048	10
Corporate loans	768,349	862,000	12
Loans to medium and large corporates	747,207	838,586	12
Municipal loans	21,142	23,413	11
Provisions	(248,887)	(211,583)	(15)
Provisions (FX-adjusted)	**(249,979)**	**(211,583)**	**(15)**
Deposits from customers + retail bonds	4,559,728	4,942,606	8
Deposits from customers + retail bonds (FX-adjusted)	**4,559,928**	**4,942,606**	**8**
Retail deposits + retail bonds	2,859,725	3,201,149	12
Household deposits + retail bonds	2,358,402	2,635,416	12
o/w: Retail bonds	64,777	36,921	(43)
SME deposits	501,323	565,733	13
Corporate deposits	1,700,203	1,741,457	2
Deposits to medium and large corporates	1,337,805	1,231,876	(8)
Municipal deposits	362,398	509,581	41
Liabilities to credit institutions	376,886	329,442	(13)
Issued securities without retail bonds	202,309	192,097	(5)
Total shareholders' equity	1,210,949	1,312,464	8
Loan Quality	**2015**	**2016**	**%/pps**
90+ days past due loan volume (in HUF million)	290,052	255,841	(11.8)
90+ days past due loans/gross customer loans	12.1%	9.8%	(2.3)
Total provisions/90+ days past due loans	85.8%	82.7%	(3.1)
Market Share	**2015**	**2016**	**pps**
Loans	19.2%	21.0%	1.9
Deposits	25.5%	27.2%	1.7
Total Assets	26.0%	25.6%	(0.5)
Performance Indicators	**2015**	**2016**	**pps**
Net loans to (deposits + retail bonds) (FX-adjusted)	47%	49%	2
Leverage (Shareholder's Equity/Total Assets)	17.9%	18.1%	0.2
Leverage (Total Assets/Shareholder's Equity)	5.6x	5.5x	(0.1x)
Capital adequacy ratio (OTP Bank, non-consolidated, Basel3, HAS)	26.6%	27.7%	1.1
Common Equity Tier1 ratio (OTP Bank, non-consolidated, Basel3, HAS)	22.6%	24.8%	2.1

- Following the steady erosion of performing loan volumes in the last couple of years there was a 12% y-o-y increase in 2016, supported also by the take-over of AXA business volumes in November
- The dynamic portfolio expansion was visible in all segments: the performing SME and large corporate loans advanced by 11% and 15% y-o-y (FX-adjusted)
- Performing consumer loans grew by 4% y-o-y
- In 2016 new mortgage loan disbursements advanced by 40%. Performing mortgage volumes grew by 12%, without AXA they would have declined by 3%. In 2H 2016 the overall portfolio stabilized (without AXA)

Balance sheet trends

There has been a lending turnaround in 2016 at the Hungarian operation of OTP. In 2016 OTP Core's FX-adjusted gross loan portfolio increased by 9%. However, due to the sales and write-offs of non-performing loans during 2016 performing (DPD0–90) loan volume developments are more illustrative: they advanced by 12% y-o-y.

On 1 November 2016 OTP Bank has taken over the retail lending and savings, as well as the corporate businesses of AXA Bank, while the employees of AXA Bank have been transferred

to OTP Bank by 1 November 2016 within the framework of an employer's succession.
The migrated loan portfolio consisted of almost 100% mortgages. Altogether HUF 162 billion net performing (DPD0–90) mortgage loans and HUF 15 billion net DPD90+ mortgage loans were migrated on 1 November. Due to normal amortization and early repayments during November and December, as well as accounting corrections and other technical effects the gross performing volumes represented HUF 154 billion at the end of December 2016.
Adjusted for the AXA-effect (i.e. deducting the end-2016 balance of loans taken over from AXA) the performing loan portfolio of OTP Core grew by 5% y-o-y. Without the AXA-effect the mortgage book would have shrunk by 3% y-o-y and would have remained basically flat in 2H 2016.
The organic portfolio expansion was mainly fuelled by the corporate volumes: the gross micro and small enterprise loan portfolio advanced by 11% y-o-y, while the large corporate exposures grew by 15%. It is important that the agricultural financing which is considered by the Bank as a strategic area within corporate lending demonstrated a strong increase in new disbursements in 4Q similar to the previous quarter; OTP's market share edged up steadily and already exceeded 18% according to latest available data.
In 2016 the National Bank of Hungary launched the third, so called "phasing out" part of the Funding for Growth Scheme. According to the data published by the NBH on 3 January 2017 the Hungarian credit institutions participating in the scheme have already contracted for HUF 473 billion by the end of 2016 of which OTP's share represented HUF 74 billion. In October 2016 NBH decided about applying more flexible conditions for utilizing FGS loan facilities and also extended the drawdown deadline by 6 months (until 29 June 2018). In November the Monetary Council decided to extend the deadline for conclusion of loan contracts until 31 March 2017.
New mortgage disbursements[6] showed a favourable trend (+40% y-o-y). OTP Bank's market share in new mortgage loan contractual amounts reached 29.1% in 2016.
As for the new mortgage applications, application volumes at OTP Bank exceeded HUF 239 billion (+70% y-o-y). State subsidized housing loan applications increased substantially (+127% y-o-y) due to the demand generated by the Housing Subsidy for Families (CSOK). Thus, within the total housing loan applications the demand for the subsidized housing loans represented 44% (versus 35% in 2015).
OTP Bank experienced strong business activity for the extended CSOK facility, too: in 2016 close to 10,500 applications were registered with a value of over HUF 34 billion. Applicants also combined CSOK with subsidized or market-based loan applications in the amount of HUF 47 billion.
The performing consumer loan volumes advanced by 4% y-o-y, within that cash loan volumes kept growing (+13% y-o-y).
OTP's market share in the cash loan segment remained strong both in terms of stock and new disbursements. At the end of December the bank had a market share of 32.5% in total cash loan volumes. OTP Bank's market share in new cash loan flows reached 36% in 2016.
FX-adjusted deposit volumes (including retail bonds) increased by 8% y-o-y on an FX-adjusted basis. The annual increase was induced primarily by retail and municipal deposit inflows. The volume of retail deposits (with retail bonds) advanced by 12%, whereas the municipality deposits advanced by 41%.
The year-end volume of deposits taken over from AXA added HUF 60 billion to the overall deposit volumes, of that HUF 51 billion was household deposit.
On 20 September the National Bank of Hungary announced that the cumulative volume of 3 months deposits placed with the central bank can't exceed HUF 900 billion through the October, November and December 2016 tenders. Starting from August 2016 the frequency of 3M deposit tenders changed from a weekly one to a monthly one. By the end of December 2016 OTP kept HUF 212 billion in the 3 months instruments with NBH. According to the decision of the Monetary Council in December 2016 the maximum amount of 3 months deposits placed with the central bank in 1Q 2017 was further reduced and set at HUF 750 billion. The overnight central bank deposit interest rate remained unchanged at –5 bps since 23 March 2016.

[6] Mortgage loan application and disbursement statistics include the performance of OTP Building Society.

OTP FUND MANAGEMENT (HUNGARY)

Changes in assets under management and financial performance of OTP Fund Management:

Main components of P&L account	2015 HUF million	2016 HUF million	Change %
After tax profit w/o dividends and net cash transfer	4,817	6,658	38
Income tax	(897)	(1,379)	54
Profit before income tax	5,714	8,038	41
Operating profit	5,922	7,816	32
Total income	7,951	10,232	29
Net interest income	0	0	509
Net fees and commissions	7,942	10,217	29
Other net non-interest income	9	15	67
Operating expenses	(2,029)	(2,416)	19
Other provisions	(208)	222	(206)
Main components of balance sheet closing balances	**2015**	**2016**	**%**
Total assets	12,924	17,780	38
Total shareholders' equity	8,314	14,995	80
Asset under management	**2015 HUF billion**	**2016 HUF billion**	**Change %**
Assets under management, total (w/o duplicates)	**1,576**	**1,530**	**(3)**
Retail investment funds (closing, w/o duplicates)	1,079	1,000	(7)
Volume of managed assets (closing, w/o duplicates)	497	530	7
Volume of investment funds (with duplicates)	**1,204**	**1,153**	**(4)**
money market	378	295	(22)
bond	419	412	(2)
mixed	21	25	19
security	109	123	13
guaranteed	105	61	(42)
other	171	237	38

The **OTP Fund Management** posted HUF 6.7 billion profit after tax in 2016 which is 38% higher than in 2015.

The full-year 2016 operating profit grew by 32% y-o-y, which was the result of increasing net fees and commissions income (+29% y-o-y) on one hand and higher operating expenses (+19% y-o-y) on the other. The surging fees and commissions income is mainly reasoned by the performance fees registered in 4Q.

Considering the whole market, in 2016 the managed assets of BAMOSZ members slightly increased y-o-y.

Although the total volume of managed assets varied within a narrow range during the whole year, realignments can be seen in certain categories: money market funds and fixed income funds suffered capital outflow, while derivative funds, commodity funds and real estate funds experienced increasing capital inflow.

Assets under management at the Company dwindled by 4% y-o-y. The structural shift within the different types of investment funds influenced the assets of OTP Fund Management, too.

The volume of mixed funds, equity funds and other asset classes grew, while money market fund, debt funds and fixed income funds shrunk.

The market share of OTP Fund Management (without duplications) was 19.9%, lower by 3.7 pps compared to the end of 2015. The Company still holds its market leading position.

MERKANTIL GROUP (HUNGARY)[7]

Performance of Merkantil Bank and Car:

Main components of P&L account	2015 HUF million	2016 HUF million	Change %
After tax profit without the effect of adjustments	1,625	2,605	60
Income tax	0	(43)	(100)
Profit before income tax	1,625	2,648	63
Operating profit	6,678	7,370	10
Total income	13,062	13,427	3
Net interest income	17,736	16,837	(5)
Net fees and commissions	(2,536)	(991)	(61)
Other net non-interest income	(2,138)	(2,419)	13
Operating expenses	(6,383)	(6,057)	(5)
Total provisions	(5,053)	(4,722)	(7)
Provision for possible loan losses	(5,064)	(3,374)	(33)
Other provision	11	(1,348)	
Main components of balance sheet closing balances	**2015**	**2016**	**%**
Total assets	332,791	349,891	5
Gross customer loans	274,024	286,296	4
Gross customer loans (FX-adjusted)	273,955	286,296	5
Retail loans	22,237	25,498	15
Corporate loans	82,636	87,329	6
Car financing loans	169,082	173,469	3
Allowances for possible loan losses	(36,075)	(37,051)	3
Allowances for possible loan losses (FX-adjusted)	(36,075)	(37,051)	3
Deposits from customers	10,910	34,554	217
Deposits from customer (FX-adjusted)	10,910	34,554	217
Retail deposits	3,280	28,493	769
Corporate deposits	7,630	6,060	(21)
Liabilities to credit institutions	256,997	286,401	11
Issued securities	35,004	3	(100)
Total shareholders' equity	21,146	24,530	16
Loan Quality	**2015**	**2016**	**%/pps**
90+ days past due loan volume (in HUF million)	29,451	32,356	10
90+ days past due loans/gross customer loans	10.7%	11.3%	0.6
Cost of risk/average gross loans	1.88%	1.20%	(0.68)
Cost of risk/average (FX-adjusted) gross loans	1.85%	1.20%	(0.64)
Total provisions/90+ days past due loans	122.5%	114.5%	(8.0)
Performance Indicators	**2015**	**2016**	**pps**
ROA	0.5%	0.8%	0.3
ROE	7.9%	11.4%	3.5
Total income margin	4.04%	3.93%	(0.11)
Net interest margin	5.49%	4.93%	(0.56)
Cost/income ratio	48.9%	45.1%	(3.8)

The **Merkantil Bank and Car** posted HUF 2.6 billion aggregated adjusted after tax profit in 2016 versus HUF 1.6 billion net earnings in the base period (+60% y-o-y). The higher operating profit (+10% y-o-y) was fuelled mainly by a strong performance in 4Q. Total risk costs in 2016 dropped by 7% y-o-y. The total income increased by 3% y-o-y. Within that the comparability of net interest income and net fees and commissions income with the base period is distorted by changes in the methodology[8].

Furthermore, in 4Q a HUF 1.5 billion one-off item supported the net interest income line due to a change in the accounting treatment. Formerly, the booked but unpaid interest in case of exposures with over 30 days delinquency in the previous period was recorded under suspended off-balance sheet interest pursuant to HAR (and not recognized in the income statement). In December 2016 the switching to IFRS induced the realization of suspended interests on the net interest income line within income statement. At the same risk

[7] Excluding Merkantil Bérlet and Merkantil Ingatlanlízing Zrt.

[8] Fee expenses paid to dealers (being part of net interest income from accounting point of view) were reclassified from net interest income to the net fee income line in the P&L of Merkantil until 4Q 2015. Starting from 1Q 2016 this adjustment has been discontinued.

costs for possible loan losses and other risk costs were booked, too.

Operating expenses declined by 5% y-o-y: while postages and the volume of deductible taxes dropped, marketing expenses increased

Total risk cost declined by 7% y-o-y. Higher annual other risk costs were due to the switching to IFRS and provision created for litigations. Possible loan losses fell by a quarter. In 4Q DPD90+ volumes (adjusted for FX rate changes and sold and written off volumes) increased by HUF 0.4 billion against an average of HUF 1.6 billion for the last three quarters. The ratio of DPD90+ loans increased by 0.6 pp q-o-q to 11.3%, while the total coverage ratio of 114,5% decreased by 8 pps y-o-y).

The FX-adjusted loan portfolio expanded by 5% on a yearly basis due to the favourable origination activity in the corporate) and car loan segments (+6% and +3% y-o-y, respectively). Total new loan origination eroded by 4% y-o-y, albeit within that the volume of newly disbursed car loans improved by 9% y-o-y. Merkantil Bank and Car is a market leader in terms of new loan disbursements and volumes.

IFRS reports of the main foreign subsidiaries of OTP Bank

DSK GROUP (BULGARIA)

Performance of DSK Group:

Main components of P&L account	2015 HUF million	2016 HUF million	Change %
After tax profit without the effect of adjustments	52,537	47,385	(10)
Income tax	(5,729)	(4,997)	(13)
Profit before income tax	58,266	52,381	(10)
Operating profit	73,136	70,113	(4)
Total income	114,440	112,503	(2)
Net interest income	88,674	84,023	(5)
Net fees and commissions	23,013	26,034	13
Other net non-interest income	2,752	2,445	(11)
Operating expenses	(41,303)	(42,391)	3
Total provisions	(14,870)	(17,731)	19
Provision for possible loan losses	(14,650)	(12,980)	(11)
Other provision	(220)	(4,751)	
Main components of balance sheet closing balances	**2015**	**2016**	**%**
Total assets	1,778,326	1,852,901	4
Gross customer loans	1,158,894	1,151,210	(1)
Gross customer loans (FX-adjusted)	1,151,148	1,151,210	0
Retail loans	852,641	824,614	(3)
Corporate loans	298,507	326,596	9
Allowances for possible loan losses	(164,898)	(142,386)	(14)
Allowances for possible loan losses (FX-adjusted)	(163,837)	(142,386)	(13)
Deposits from customers	1,489,542	1,547,669	4
Deposits from customer (FX-adjusted)	1,482,405	1,547,669	4
Retail deposits	1,243,730	1,329,264	7
Corporate deposits	238,675	218,405	(8)
Liabilities to credit institutions	14,951	21,782	46
Total shareholders' equity	253,468	247,267	(2)
Loan Quality	**2015**	**2016**	**%/pps**
90+ days past due loan volume (in HUF million)	172,124	131,889	(23)
90+ days past due loans/gross customer loans	14.9%	11.5%	(3.4)
Cost of risk/average gross loans	1.26%	1.12%	(0.14)
Cost of risk/average (FX-adjusted) gross loans	1.28%	1.13%	(0.15)
Total provisions/90+ days past due loans	95.8%	108.0%	12.2
Performance Indicators	**2015**	**2016**	**pps**
ROA	3.1%	2.6%	(0.5)
ROE	21.0%	18.9%	(2.0)
Total income margin	6.77%	6.20%	(0.57)
Net interest margin	5.24%	4.63%	(0.62)
Cost/income ratio	36.1%	37.7%	1.6
Net loans to deposits (FX-adjusted)	67%	65%	(1)
FX rates	**2015 HUF**	**2016 HUF**	**Change %**
HUF/BGN (closing)	160.1	159.0	(1)
HUF/BGN (average)	158.5	159.3	1

- The full-year 2016 profit reached HUF 47.4 billion (–10% y-o-y); the results were shaped mainly by higher total risk costs and moderating net interest income
- The annual net interest income eroded by 5%; the net interest margin eroded in 2016
- Loan quality developments remained favourable: the DPD90+ ratio declined and the coverage improved
- Higher lending activity: outstanding performing corporate loan growth of 15%; basically stagnating performing volumes on the household side

DSK Group posted an after tax profit of HUF 47.4 billion in 2016 (–10% compared with the previous year's record high result), marking a return on equity (ROE) of 18.9%.

The operating profit moderated by 4%. Within total income the net interest income eroded by 5% y-o-y, which was attributable mainly to the continuing repricing and refinancing of household loans that resulted in declining interest revenues through lower margins, as well as to the steadily decreasing interest rate environment observed through 2016. The above effects were only partially mitigated by the further declining interest expenditures on deposits along with reduced deposit interest rates. The net interest income was also shaped by the change in the methodology effective from October 2015 regarding the accounting treatment of recoveries collected from DPD90+ exposures. The net interest margin declined by 62 bps y-o-y to 4.63%, explained partially by the above reasons, but also by the dilutive effect of steady deposit inflow inducing faster growth in average total assets (+7% y-o-y) than in loans.

The net fee and commission income grew by 13% as deposits and transactions-related fee revenues rose parallel with expanding business volumes and stronger account keeping fee income. Soaring corporate loan disbursements also helped fee income generation.

Other net non-interest income (making up 2% of total income) weakened by 11% y-o-y.

Operating expenses went up by 3% y-o-y in 2016, mainly due to higher personnel expenses and marketing costs, but the expert fees on the local AQR process emerged in 2Q 2016 played a role, too. On the other hand, supervisory fees and deductible taxes moderated y-o-y.

Credit quality trends remained healthy. During the whole year the ratio of DPD90+ loans to total gross loans sank to 11.5% (–3.4 pps y-o-y). At the same time, the total provision coverage ratio of DPD90+ loans edged up to 108%. In 2016 altogether HUF 35 billion non-performing portfolio was sold or written off. The FX-adjusted DPD90+ volume changes excluding the impact of loan sales and write-offs remained favourable (in HUF billion: 2015: 6, 2016: –3). With respect to this indicator, especially the mortgage and corporate loans showed improvement during 2016.

Total risk costs went up by 19% y-o-y in 2016. Within that, loan-related risk costs fell by 11%, thus the risk cost rate moderated to 112 bps (–14 bps y-o-y). The bank's consistently conservative and prudent provisioning policy has not changed. The y-o-y increase of risk costs is partially explained by the tightening of the classification of restructured loans. This methodological change resulted in an incremental risk cost of around HUF 4 billion in 4Q 2016. (According to the new methodology, restructured loans remain in restructured category for longer after the resumption of payment on schedule.)

In 2016 the other risk cost line was shaped mainly by provisions for potential future losses booked in 4Q 2016.

Business activity demonstrated a strengthening trend: the FX-adjusted performing (DPD0–90) loan portfolio grew by 4% y-o-y, fuelled mainly by outstanding corporate loan dynamics (+15% y-o-y FX-adjusted) supported by the doubling new corporate loan origination. DSK Bank's market share in the corporate loan stock stood at 7.5% at the end of 2016, up from 7% a year ago.

As for the retail segment, performing mortgage loans eroded by a mere 1%, whereas DPD0–90 consumer loans remained stable y-o-y (FX-adjusted). Annual mortgage loan disbursements advanced by 3%, and new consumer loan sales were up by 7% y-o-y.

As a result of non-performing loan sales and write-offs the FX-adjusted total gross loan portfolio remained stable y-o-y.

The FX-adjusted deposit base advanced by 4% y-o-y. Retail deposits grew by 7% y-o-y, despite persistently lower than market average and even gradually further declining deposit rates offered by DSK Bank. Corporate deposits saw an 8% y-o-y decline (FX-adjusted).

[9] Effective from October 2015 the accounting treatment of recoveries collected from DPD90+ exposures has been changed. According to the previous methodology such recoveries were treated as recoveries of the previously suspended off-balance sheet interest income. Starting from October the order of accounting changed; consequently recoveries reduce on-balance sheet claims first. The change in methodology affects the provisions for possible loan losses, too. Therefore it is neutral for the profit after tax and influences the structure of the P&L account only.

The capital adequacy ratio of DSK Bank calculated in accordance with local regulation stood at 17.6%. The reason behind the 2% y-o-y decrease of shareholders' equity was the dividend payment to the mother company.

Following the completion of the AQR, the Bulgarian National Bank published the results of the stress test on 13 August 2016. The results confirmed that DSK Bank's capital position is strong and stable.

OTP BANK RUSSIA

Performance of OTP Bank Russia:

Main components of P&L account	2015 HUF million	2016 HUF million	Change %
After tax profit w/o dividends and net cash transfer	(15,101)	20,535	(236)
Income tax	3,318	(6,480)	(295)
Profit before income tax	(18,419)	27,015	(247)
Operating profit	64,515	61,866	(4)
Total income	113,052	106,155	(6)
Net interest income	97,871	91,816	(6)
Net fees and commissions	14,478	14,098	(3)
Other net non-interest income	703	240	(66)
Operating expenses	(48,536)	(44,289)	(9)
Total provisions	(82,934)	(34,851)	(58)
Provision for possible loan losses	(82,060)	(33,988)	(59)
Other provision	(874)	(863)	(1)
Main components of balance sheet closing balances	**2015**	**2016**	**%**
Total assets	507,082	622,666	23
Gross customer loans	393,914	490,086	24
Gross customer loans (FX-adjusted)	477,900	490,086	3
Retail loans	443,218	450,353	2
Corporate loans	32,879	38,528	17
Car financing loans	1,803	1,205	(33)
Gross DPD0–90 customer loans (FX-adjusted)	385,763	391,062	1
Retail loans	357,319	357,183	0
Allowances for possible loan losses	(88,017)	(116,458)	32
Allowances for possible loan losses (FX-adjusted)	(106,216)	(116,458)	10
Deposits from customers	307,646	345,241	12
Deposits from customer (FX-adjusted)	369,171	345,241	(6)
Retail deposits	303,511	279,980	(8)
Corporate deposits	65,659	65,261	(1)
Liabilities to credit institutions	42,974	91,641	113
Issued securities	1,024	1,038	0
Subordinated debt	21,820	24,778	14
Total shareholders' equity	89,504	125,190	40
Loan Quality	**2015**	**2016**	**%/pps**
90+ days past due loan volume (in HUF million)	76,403	99,024	30
90+ days past due loans/gross customer loans	19.4%	20.2%	0.8
Cost of risk/average gross loans	17.05%	7.69%	(9.36)
Cost of risk/average (FX-adjusted) gross loans	15.07%	7.02%	(8.04)
Total provisions/90+ days past due loans	115.2%	117.6%	2.4
Performance Indicators	**2015**	**2016**	**pps**
ROA	(2.4%)	3.6%	6.0
ROE	(15.0%)	19.1%	34.1
Total income margin	17.98%	18.79%	0.82
Net interest margin	15.56%	16.25%	0.69
Cost/income ratio	42.9%	41.7%	(1.2)
Net loans to deposits (FX-adjusted)	101%	108%	8
FX rates	**2015 HUF**	**2016 HUF**	**Change %**
HUF/RUB (closing)	3.9	4.8	23
HUF/RUB (average)	4.6	4.2	(8)

- Profitable operation in each and every quarter of 2016, HUF 20.5 billion after tax profit in 2016 is the result of operating profit improving by 5% in RUB terms and risk cost halving y-o-y
- Pace of portfolio deterioration moderated further, DPD90+ ratio stood at around 20%
- Net interest margin widened in 2016
- FX-adjusted annual performing loan volume change turned into positive (+1% y-o-y)

The HUF denominated financial figures of OTP Bank Russia are distorted by the HUF/RUB moves: the 4Q 2016 closing exchange rate showed a 23% y-o-y rouble strengthening; while the average 2016 exchange rate depreciated by 8% y-o-y. Therefore local currency P&L dynamics can be materially different from those in HUF terms.

After two loss-making years in 2016 **OTP Bank Russia** delivered its third ever highest profit in RUB terms and realised HUF 20.5 billion after tax profit. This is a material improvement over the HUF 15.1 billion loss in the base period. The main driver behind the substantial change was the 54% drop of risk cost in RUB terms, in addition performing loans increased on the yearly basis and the moderating funding costs also helped.

As for the rouble denominated profit dynamics, the 2016 operating profit development (+5% y-o-y) was driven by the 3% y-o-y growth of total income, while operating expenses fell by 1%.

The net interest income for the year increased by 3% y-o-y in rouble terms, despite average performing loan portfolio was smaller compared to the base period Only with a seasonally strong disbursement activity at the end of year the bank managed to exceed the 2015 year-end closing volume y-o-y. The interest income decrease induced by lower loan volumes was counterbalanced by the decrease of interest rates of liabilities, as a result the yearly net interest margin improved by 2.5 pps y-o-y in RUB terms. In 4Q net interest income increased by 5% q-o-q: funding cost further diminished and performing loan volumes grew – however with narrowing interest margins earned on loans.

The 2016 net fee and commission income advanced by 7% y-o-y in RUB terms supported by insurance fee income on cash loans with insurance and other lending related F&C income.

Operating expenses in 2016 decreased by 1% y-o-y in RUB terms in spite of the 7% yearly average Russian inflation rate (adjusted to the one-off[10] item in 3Q 2016 it would have decreased by 3%). Branch network rationalisation was practically completed in the first half of 2015; number of branches was stable in the course of 2016. The number of the Bank's employees (without agents) decreased by 1% y-o-y to 4,744 while the number of agents remained practically the same.

The FX-adjusted DPD90+ volume growth excluding the impact of sold/written-off non-performing loans showed a trend-like moderation after 2Q 2015, so the total growth in 2016 was less than half of the 2015 figure (in HUF billion: 2015: 110, 2016: 48).

The DPD90+ ratio increased by 0.8 pps y-o-y to 20.2% in 2016. The improvement was supported in 2016 by the sale and write-off of non-performing loans in the amount of RUB 6.5 billion. The development of total risk cost demonstrated a favourable trend: in 2016 it decreased y-o-y by 54% in rouble terms. In 2016 the risk cost rate decreased considerably and sank below 8%. The total provision coverage of DPD90+ loans was 117.6% by the end of 2016 (+2 pps y-o-y).

Due to the favourable loan sales dynamics in the second half of the year the FX-adjusted performing (DPD0–90) consumer loan portfolio increased by 1% y-o-y. POS lending strengthened, the 2016 disbursements were higher by 27% compared to 2015 levels. In 2016 FX-adjusted performing POS loan volumes

[10] In 3Q 2016 deposit protection fund contributions paid in the first nine months of 2016 have been reclassified from the other net non-interest income line to operating expenses. Thus for the whole year other net non-interest income increased by about HUF 1 billion and operating expenses grew in absolute terms by the same amount.

advanced by 17% y-o-y. With regards to cross-sale of credit cards, the mass delivery of credit characterised mainly 3Q, in 4Q the number of sent cards declined. As a result, the erosion of the FX-adjusted performing card loan volumes continued (–24% y-o-y). Yearly disbursed volumes of cash loans more than doubled y-o-y in 2016. The FX-adjusted volume of performing cash loans increased by 7% y-o-y. FX-adjusted performing corporate loan volumes surged significantly in 4Q, as a result the annual growth of volumes was 20% y-o-y, mainly due to the favourable development of working capital financing and commercial factoring.

FX-adjusted total deposits contracted by 6% y-o-y. The FX-adjusted net loan-to-deposit ratio stood at 108% at the end of 2016 (+8 pps y-o-y).

The capital adequacy ratio of the bank calculated in line with local regulation stood at 16.2% at the end of 2016 (+0.8 pp y-o-y).

TOUCH BANK (RUSSIA)

Performance of Touch Bank:

Main components of P&L account	2015 HUF million	2016 HUF million	Change %
After tax profit w/o dividends and net cash transfer	(4,840)	(5,898)	22
Income tax	1,189	1,468	23
Profit before income tax	(6,029)	(7,366)	22
Operating profit	(6,020)	(7,328)	22
Total income	(241)	(122)	(49)
Net interest income	(155)	209	(235)
Net fees and commissions	(84)	(349)	314
Other net non-interest income	(2)	17	
Operating expenses	(5,779)	(7,205)	25
Total provisions	(9)	(38)	346
Provision for possible loan losses	0	(33)	
Other provision	(9)	(5)	(43)
Main components of balance sheet closing balances	**2015**	**2016**	**%**
Total assets	7,410	26,141	253
Gross customer loans	4	1,609	
Gross customer loans (FX-adjusted)	5	1,609	
Retail loans	5	1,609	
Corporate loans	0	0	
Allowances for possible loan losses	0	(36)	
Allowances for possible loan losses (FX-adjusted)	0	(36)	
Deposits from customers	4,250	20,455	381
Deposits from customer (FX-adjusted)	5,220	20,455	292
Retail deposits	5,220	20,455	292
Corporate deposits	0	0	
Liabilities to credit institutions	4	0	(100)
Subordinated debt	1,653	0	(100)
Total shareholders' equity	1,474	5,585	279
Loan Quality	**2015**	**2016**	**%/pps**
90+ days past due loan volume (in HUF million)	0	5	
Cost of risk/average gross loans	2.60%	4.13%	1.53
Cost of risk/average (FX-adjusted) gross loans	2.11%	4.13%	2.02
FX rates	**2015 HUF**	**2016 HUF**	**Change %**
HUF/RUB (closing)	3.9	4.8	23
HUF/RUB (average)	4.6	4.2	(8)

- HUF 5.9 billion loss in 2016
- Intensifying business activity, about 62 thousand activated cards, slowly growing cross-sale lending activities
- Around four-fold growth in total deposits in rouble terms (2016: HUF 20.5 billion)

Touch Bank is part of OTP Bank Russia from legal point of view, and it is operating under the same banking license, but as a separate digital banking business line. In order to provide transparent information Touch Bank is presented as a separate virtual entity.

The 2016 result of **Touch Bank** in its second year of operation was shaped again by the operating expenditures. For the whole year HUF 5.9 billion after tax loss was realized.

The yearly loss shows a 30% increase compared to 2015 in rouble terms. The acquisition of new customers continued: by the end of 2016 the number of activated cards reached 62 thousand. Total deposits expanded four-fold y-o-y on an FX-adjusted basis and almost reached HUF 20.5 billion equivalent. Credit card and revolving cash loan origination started to accelerate in March, total loan portfolio was HUF 1.6 billion by year-end.

OTP BANK UKRAINE

Performance of OTP Bank Ukraine:

Main components of P&L account	2015 HUF million	2016 HUF million	Change %
After tax profit without the effect of adjustments	(40,312)	10,202	(125)
Income tax	1,918	(1,477)	(177)
Profit before income tax	(42,230)	11,679	(128)
Operating profit	25,185	22,217	(12)
Total income	41,087	37,304	(9)
Net interest income	29,146	26,478	(9)
Net fees and commissions	7,915	8,746	10
Other net non-interest income	4,025	2,080	(48)
Operating expenses	(15,902)	(15,087)	(5)
Total provisions	(67,414)	(10,538)	(84)
Provision for possible loan losses	(65,891)	(11,866)	(82)
Other provision	(1,523)	1,328	(187)
Main components of balance sheet closing balances	**2015**	**2016**	**%**
Total assets	292,882	307,117	5
Gross customer loans	421,330	381,662	(9)
Gross customer loans (FX-adjusted)	415,512	381,662	(8)
Retail loans	214,527	164,404	(23)
Corporate loans	177,208	195,539	10
Car financing loans	23,777	21,719	(9)
Gross DPD0–90 customer loans (FX-adjusted)	210,892	221,653	5
Retail loans	52,811	50,102	(5)
Corporate loans	146,764	159,093	8
Car financing loans	11,316	12,457	10
Allowances for possible loan losses	(242,515)	(189,450)	(22)
Allowances for possible loan losses (FX-adjusted)	(241,894)	(189,450)	(22)
Deposits from customers	211,346	228,568	8
Deposits from customer (FX-adjusted)	203,157	228,568	13
Retail deposits	122,776	107,465	(12)
Corporate deposits	80,381	121,103	51
Liabilities to credit institutions	99,083	46,270	(53)
Subordinated debt	8,571	0	(100)
Total shareholders' equity	(34,804)	24,243	(170)
Loan Quality	**2015**	**2016**	**%/pps**
90+ days past due loan volume (in HUF million)	204,635	160,009	(22)
90+ days past due loans/gross customer loans	48.569%	41.9%	(6.6)
Cost of risk/average gross loans	13.32%	2.96%	(10.36)
Cost of risk/average (FX-adjusted) gross loans	13.36%	2.98%	(10.38)
Total provisions/90+ days past due loans	118.5%	118.4%	(0.1)
Performance Indicators	**2015**	**2016**	**pps**
ROA	(11.3%)	3.4%	14.7
ROE	n/a	n/a	
Total income margin	11.49%	12.43%	0.94
Net interest margin	8.15%	8.83%	0.68
Cost/income ratio	38.7%	40.4%	1.7
Net loans to deposits (FX-adjusted)	85%	84%	(1)
FX rates	**2015 HUF**	**2016 HUF**	**Change %**
HUF/UAH (closing)	11.9	10.8	(9)
HUF/UAH (average)	12.9	11.0	(15)

- In 2016 the Ukrainian subsidiary turned into profit: 2016 adjusted net after tax profit exceeded HUF 10.2 billion
- The profitable operation was mainly shaped by favourable credit quality trends coupled with lower risk costs supported by the base effect of the portfolio clean up in 2015
- DPD90+ ratio dropped by 6.6 pps y-o-y due to NPL sales and write-offs; stable provisioning coverage, above 118%
- FX-adjusted performing loans increased by 5% y-o-y, while deposits advanced by 13% respectively

The financial performance and indicators of OTP Bank Ukraine in HUF terms were significantly distorted by the HUF/UAH exchange rate moves: in 4Q 2016 the closing rate of HUF appreciated by 9% y-o-y against the Ukrainian hryvnia. The annual average rate strengthened by 15% y-o-y, the 4Q average rate by 11% y-o-y against UAH. Therefore local currency P&L and balance sheet dynamics are materially different from those in HUF terms.

OTP Bank Ukraine posted HUF 10.2 billion adjusted[11] after tax profit in 2016 marking a sharp improvement compared to the loss in the base periods.

Given the significant FX rate movements, we analyse the P&L developments in UAH terms.

In 2016 operating result in UAH terms increased by 6% y-o-y (–12% in HUF), total income improved by 8% y-o-y.

The full-year 2016 net interest income surged by 7% y-o-y in UAH. This improvement was reasoned by several factors: on one hand there was a drop in interest expenses due to the conversion of intra-group financing and subordinated debt into equity in December 2015. Furthermore, it was positive that the restructuring of dollar-based mortgage loans' took place mainly in 2015: in case of loans involved in the bank's own restructuring programme, the total NPV decline for the whole duration of the restructured loan is accounted for in one lump sum on the net interest income line at the time of the restructuring. At the end of December the restructured USD mortgage loan volumes reached USD 108 million.

At the end of 2016 the net performing USD mortgage loan volumes stood at HUF 6 billion, whereas the UAH denominated net performing mortgages amounted to HUF 14.2 billion.

The bank changed the methodology[12] on booking interest income on impaired exposures in July and August 2016 (different timing for different product categories). Such change had a negative forward-looking impact in the bank's standalone income statement starting from July.

The annual net fees and commissions income in 2016 surged by 29% in UAH terms due to the repayment of a subordinated debt facility to third party in 4Q 2015, as no further fee expenses occurred (the Ukrainian subsidiary used to pay a guarantee fee to OTP Bank as guarantor).

Regarding the net non-interest revenues, the y-o-y change was mainly shaped by base effect: in 1Q 2015 a large one-off FX gain was realized due to the hectic moves in FX rates.

Operating expenses increased by 11% y-o-y in hryvnia terms amid declining inflation (in 2016 the average CPI was 13.9%). The y-o-y growth was partly induced by higher personal expenses, as well as higher expert and regulatory expenses.

Total risk costs in UAH dropped by around 4/5 on a yearly basis. Such a decline was shaped by no major big ticket provisions occurring already

[11] As one-off items not related to the normal course of business activity, the risk costs created in relation to the Crimean exposures from 2Q 2014 until 4Q 2015, as well as risk costs made for exposures to Donetsk and Luhansk counties from 3Q 2014 to 4Q 2015 were eliminated from the Ukrainian P&L and shown amongst the adjustment items on consolidated level. Balance sheet lines were not adjusted for these items.
According to the old method the bank recognized interest revenues based on gross loan volumes. Simultaneously, risk costs were created for the booked interest revenues in line with the provision coverage level.

[12] In line with the new methodology interest revenues based on net loan volumes. Further details are available in 'Supplementary Data' section of the report.

in 2016.[13] Favourable credit quality trends in previous quarters were also manifesting through the stable non-performing volumes (FX-adjusted DPD90+ volume growth excluding the impact of loan sales and write-offs in HUF billion: 2015: 11, 2016: 11).

In 2016 around HUF 51 billion equivalent non-performing loans were sold or written off, of that HUF 17 billion in 4Q respectively. The DPD90+ ratio shrank by 6.6 pps y-o-y to 41.9%, the total provision coverage ratio of DPD90+ loans remained above 118%.

Regarding lending activity, mortgage disbursement has not been resumed yet. New credit card sales generated only limited volume increase. New POS loans sales kept increasing, their disbursement grew by 62% y-o-y supported by seasonality. The volume of performing consumer loans expanded by 9% y-o-y. The volume of POS loans comprising 58% of the consumer loans surged by 49% y-o-y. The FX-adjusted total performing loan expanded by 5.1% y-o-y. The volume of retail loans eroded by 5.1% y-o-y. Corporate exposures increased on a yearly basis (+8.4 pps y-o-y).

Deposits (adjusted for the FX-effect) expanded by 13% y-o-y amid further declining offered deposit rates. The volume of retail deposits increased by –12% y-o-y. Corporate deposits increased on yearly basis (+51% y-o-y).

The standalone IFRS capital adequacy ratio of the Ukrainian Banking Group according to local calculation rules stood at 12.44% at the end of December 2016.

The shareholders' equity of the Ukrainian banking group under IFRS was HUF 24.2 billion at the end of December 2016. The Ukrainian shareholders' equity includes that of 3 entities: the Bank, the Leasing and Factoring companies' equity. Accordingly, the standalone equity of the Bank under IFRS reached HUF 25.8 billion by December 2016, whereas the equity of the Leasing Company comprised –HUF 0.6 billion. As for the Factoring company its equity increased from –HUF 52.6 billion by June 2016 to –HUF 1 billion by December as a result of a capital increase; simultaneously bulk of the intragroup funding was repaid.

A temporary change in local regulation made it possible to implement such debt into equity conversion in a rapid way without facing major FX exchange risk. Accordingly, in case of the Ukrainian Factoring USD 187 million capital increase was implemented through several steps, simultaneously bulk of the USD 207 million exposure towards OTP Bank (in fact USD 187 million, of that USD 30 million in 4Q) has been repaid.

As a result, by December 2016 the total amount of intragroup exposure against the Ukrainian group members dropped to HUF 46 billion (HUF –61 billion y-o-y) and were as follows: there was an outstanding exposure of USD 137 million against the Leasing Company and USD 20 million against the Factoring unit, respectively.

[13] In 1Q 2015 high risk costs were set aside since the sharp weakening of the hryvnia against the USD triggered additional provisioning need in case of covered loans denominated in FX. Also, in 3Q 2015 the bank made provisions for the corporate exposures especially for those originated before the financial crisis (so called legacy book).

OTP BANK ROMANIA

Performance of OTP Bank Romania:

Main components of P&L account	2015 HUF million	2016 HUF million	Change %
After tax profit without the effect of adjustments	1,480	1,655	12
Income tax	(100)	(483)	382
Profit before income tax	1,580	2,138	35
Operating profit	6,074	8,545	41
Total income	27,662	26,644	(4)
Net interest income	22,904	20,315	(11)
Net fees and commissions	3,773	3,230	(14)
Other net non-interest income	985	3,098	215
Operating expenses	(21,588)	(18,100)	(16)
Total provisions	(4,493)	(6,407)	43
Provision for possible loan losses	(6,598)	(5,541)	(16)
Other provision	2,105	(866)	(141)
Main components of balance sheet closing balances	**2015**	**2016**	**%**
Total assets	646,042	588,188	(9)
Gross customer loans	546,148	524,576	(4)
Gross customer loans (FX-adjusted)	543,347	524,576	(3)
Retail loans	404,106	382,021	(5)
Corporate loans	139,241	142,555	2
Allowances for possible loan losses	(72,305)	(74,645)	3
Allowances for possible loan losses (FX-adjusted)	(72,015)	(74,645)	4
Deposits from customers	334,346	336,991	1
Deposits from customer (FX-adjusted)	332,030	336,991	1
Retail deposits	255,609	255,729	0
Corporate deposits	76,420	81,262	6
Liabilities to credit institutions	201,187	167,372	(17)
Total shareholders' equity	46,667	42,510	(9)
Loan Quality	**2015**	**2016**	**%/pps**
90+ days past due loan volume (in HUF million)	91,359	91,328	0
90+ days past due loans/gross customer loans	16.7%	17.4%	0.7
Cost of risk/average gross loans	1.35%	1.03%	(0.32)
Cost of risk/average (FX-adjusted) gross loans	1.34%	1.04%	(0.30)
Total provisions/90+ days past due loans	79.1%	81.7%	2.6
Performance Indicators	**2015**	**2016**	**pps**
ROA	0.3%	0.3%	0.0
ROE	3.6%	3.7%	0.1
Total income margin	4.93%	4.32%	(0.61)
Net interest margin	4.08%	3.29%	(0.79)
Cost/income ratio	78.0%	67.9%	(10.1)
Net loans to deposits (FX-adjusted)	142%	134%	(8)
FX rates	**2015 HUF**	**2016 HUF**	**Change %**
HUF/RON (closing)	69.2	68.5	(1)
HUF/RON (average)	69.7	69.4	(1)

- The Romanian operation posted HUF 1.7 billion net profit in 2016
- Operating income advanced by 41% y-o-y mainly due to lower operating expenses (–16% y-o-y) while total income eroded by 4%
- The y-o-y erosion of FX-adjusted retail loan portfolio reflects the impact of the bank's own conversion programme

OTP Bank Romania delivered HUF 1.7 billion profit after tax in 2016 (+12% y-o-y). Earnings before tax (HUF 2.1 billion) demonstrated an even stronger y-o-y improvement (+35%) as a result of higher effective tax rate being applied in 2016.

The operating profit surged by 41% y-o-y as a result of lower revenues (–4% y-o-y) and moderating operational expenses (–16% y-o-y). On the total income line the full-year net interest income dropped by 11% y-o-y due to methodology change[14] in 4Q 2016 and

[14] 2016 and 4Q net interest income, as well the other net-non interest income is difficult to reconcile y-o-y due to a methodological change effective from 1Q 2016. Accordingly, the total revaluation result from intragroup swap deals – earlier booked partly within net interest income, but also within other net non-interest income – will be presented on the net interest income line on a net base.

also the CHF mortgage conversion (a partial principal write off resulted in lower volumes and the converted loans carried lower margins). The annual net interest margin dropped to 3.29% (–79 bps y-o-y).

The full-year net fees and commissions income eroded by 14%. On the one hand there was a negative impact of lower card related fees induced by EU-directives effective from 2015[15]. On the other hand, in 1Q the bank had to pay a one-off guarantee fee after loans originated in 2015 by Banca Millennium under the Prima Casa programme.

Other net non-interest income grew by HUF 2.1 billion y-o-y due to a base effect: in 4Q 2015 one-off items resulted in HUF 1.7 billion loss. Of that HUF 0.8 billon was related to one-off losses induced by asset write-offs, real estate sales or revaluations connected to branch closures and IT system write-off. An additional HUF 0.9 billion was due to the integration expenses of Banca Millennium. The latter had no P&L impact as they were offset by lower lending related and other provisions.

In 2016 operating expenses dropped by 16% which already reflects the cost synergies of the Banca Millennium transaction. During 2016 administrative costs dropped by 25% as the bank posted savings on the IT and real estate side. Furthermore personal expenses declined by 7% y-o-y and the amortization costs also dropped by 12% respectively.

Total risk costs surged by 43% y-o-y in 2016. Within that other risk cost dynamics were influenced by several factors: other provisions made for the integration expenses of the Banca Millennium were released mainly in 4Q 2015. Also, in 4Q 2016 the bank created provisions for litigation cases.

Provisions on loan losses dropped by 16% y-o-y, as a result the annual risk cost rate moderated to 103 bps. The annual DPD90+ loan volume growth (adjusted for FX rate changes and sold and written off volumes) amounted to HUF 9.1 billion in 2016 versus HUF 12.1 billion in 2015. In 2016 in total HUF 9.8 billion non-performing exposures were sold/written off. The DPD90+ ratio stood at to 17.4% (0.7 pp y-o-y), their total provision coverage ratio increased to 81.7% (+2.6 pps y-o-y) the highest level since 2009.

The FX-adjusted gross loan portfolio declined by 3% y-o-y. Retail volumes eroded by 5% y-o-y which was partially offset by the increasing corporate portfolio (+2%). New mortgage disbursement more than quadrupled y-o-y partially due active participation in the state subsidized Prima Casa Programme.

The total FX-adjusted deposit volumes increased by mere 1% y-o-y supported by corporate inflows.

According to the local regulation the Bank's standalone capital adequacy ratio stood at 14.4% at the end of 2016.

[15] From December 2015 the interchange fee cannot exceed 0.2% in case of debit cards and 0.3% in case of credit card transactions.

OTP BANKA HRVATSKA (CROATIA)

Performance of OTP banka Hrvatska:

Main components of P&L account	2015 HUF million	2016 HUF million	Change %
After tax profit without the effect of adjustments	2,968	3,783	27
Income tax	1,256	(865)	(169)
Profit before income tax	1,711	4,648	172
Operating profit	10,844	13,538	25
Total income	28,020	31,442	12
Net interest income	20,345	22,800	12
Net fees and commissions	5,309	5,330	0
Other net non-interest income	2,367	3,312	40
Operating expenses	(17,177)	(17,904)	4
Total provisions	(9,132)	(8,890)	(3)
Provision for possible loan losses	(6,813)	(5,331)	(22)
Other provision	(2,320)	(3,560)	53
Main components of balance sheet closing balances	**2015**	**2016**	**%**
Total assets	649,870	649,063	0
Gross customer loans	470,862	471,346	0
Gross customer loans (FX-adjusted)	469,573	471,346	0
Retail loans	299,868	307,791	3
Corporate loans	169,545	163,424	(4)
Allowances for possible loan losses	(43,905)	(50,051)	14
Allowances for possible loan losses (FX-adjusted)	(43,987)	(50,051)	14
Deposits from customers	509,317	515,450	1
Deposits from customer (FX-adjusted)	509,291	515,450	1
Retail deposits	451,463	450,278	0
Corporate deposits	57,828	65,171	13
Liabilities to credit institutions	48,974	44,141	(10)
Total shareholders' equity	69,563	74,026	6
Loan Quality	**2015**	**2016**	**%/pps**
90+ days past due loan volume (in HUF million)	61,906	57,127	(8)
90+ days past due loans/gross customer loans	13.1%	12.1%	(1.0)
Cost of risk/average gross loans	1.45%	1.13%	(0.32)
Cost of risk/average (FX-adjusted) gross loans	1.45%	1.13%	(0.32)
Total provisions/90+ days past due loans	70.9%	87.6%	16.7
Performance Indicators	**2015**	**2016**	**pps**
ROA	0.5%	0.6%	0.1
ROE	4.2%	5.3%	1.1
Total income margin	4.30%	4.84%	0.55
Net interest margin	3.12%	3.51%	0.39
Cost/income ratio	61.3%	56.9%	(4.4)
Net loans to deposits (FX-adjusted)	84%	82%	(2)
FX rates	**2015 HUF**	**2016 HUF**	**Change %**
HUF/HRK (closing)	41.0	41.1	0
HUF/HRK (average)	40.7	41.3	2

- HUF 3.8 billion net profit in 2016 (+27% y-o-y) as a result of increasing operating profit and slightly declining risk costs
- In 2016 the net interest income grew by 12% y-o-y supported by decreasing funding costs
- The DPD90+ ratio declined to 12.1%, the total provision coverage improved

In December 2016 OTP banka Hrvatska signed an acquisition agreement on purchasing Splitska banka. Societe Generale Splitska is the 5th biggest player on the Croatian banking market, as a result of the acquisition the market share of OTP Group will rise to approximately 11%. The financial closure of the transaction is expected in the summer 2017, therefore the presented numbers of OBH exclude the acquisition effects.

OTP banka Hrvatska posted HUF 3.8 billion adjusted[16] after tax profit in 2016, exceeding the base period by 27%. Adjusting the base period figures from the one-off items[17] that emerged in 2Q 2015, however, the yearly profit surged by 159% y-o-y.

The y-o-y 25% higher operating profit in 2016 was supported by increasing total income (+12%), whereas operating expenses increased by 4%. The cost-to-income ratio declined y-o-y by 4 pps to 57%. Higher y-o-y net interest income (+12%) was supported by lower funding costs; as a result, the net interest margin improved to 3.51% (+39 bps y-o-y). Net fees and commission income was flat on the yearly basis. The 40% y-o-y growth in other net non-interest income is related mainly to a property sale and also to one-off loss posted in 1Q 2015. The CHF fixing exerted a HUF 360 million negative effect on other non-interest income as a reflection of lower principal part of the repayments due to the fixing.

Portfolio quality trends are promising.

In 2016 HUF442 million loans were sold or written-off in total, bulk of it in the first quarter. The DPD90+ ratio decreased to 12.1% (–1 pp y-o-y). Provisions for loan losses in 2016 dropped by 22% y-o-y. Total provision coverage of DPD90+ portfolio improved by 16.7 pps y-o-y, and reached 87.6% as a result of prudent provisioning.

In 2015 HUF 1.4 billion other risk cost was created related to a litigation case against the predecessor of the OBH. Another litigation case related to the predecessor of OBH resulted in provisions with the amount of HUF 3.1 billion in 2016 recognized in other provisions.

FX-adjusted gross loans were flat on the yearly comparison, notwithstanding the HUF 6.3 billion drop in gross loans resulting from the conversion of CHF mortgages with a principal discount mostly in the first half of 2016. Nevertheless, performing (DPD0–90) loans grew by 2% in 2016. New mortgage loan disbursements have been on the rise since March 2016, thus the amount of disbursed volumes in 2016 doubled y-o-y. Mortgage volumes grew by 6% y-o-y (FX-adjusted). Consumer loan volumes hardly changed y-o-y.

FX-adjusted total deposits grew by 1% y-o-y. Net loan-to-deposit ratio diminished by 2 pps to 82% y-o-y.

[16] On 18 September 2015 the Croatian Parliament adopted amendments to the Consumer Lending Act, which determined the conditions of the conversion of CHF denominated retail loans into EUR at an exchange rate valid at origination. The one-off negative impact due to the amendments of the Act has been eliminated from the OBH P&L and booked on consolidated level within adjustment items. Balance sheet data have not been adjusted.
Furthermore, the gain on sale of Visa Europe shares booked in 2Q 2016 have been eliminated from the OBH P&L and are booked on consolidated level within adjustment items. Balance sheet data have not been adjusted.

[17] In 2Q 2015 the after tax profit was positively affected by income tax refund, which tax was imposed on badwill of the Banco Popolare Croatia acquisition in 2Q 2014 (it was shown on consolidated level, among adjustments) and the Bank utilized the BPC's deferred tax of former years. These two items improved the profit by HUF +1.5 billion on income tax line.

OTP BANKA SLOVENSKO (SLOVAKIA)

Performance of OTP Banka Slovensko:

Main components of P&L account	2015 HUF million	2016 HUF million	Change %
After tax profit without the effect of adjustments	924	(2,223)	(341)
Income tax	(489)	256	(152)
Profit before income tax	1,413	(2,479)	(276)
Operating profit	6,601	6,781	3
Total income	17,672	17,893	1)
Net interest income	14,568	14,257	(2)
Net fees and commissions	3,386	3,272	(3)
Other net non-interest income	(283)	363	(228)
Operating expenses	(11,071)	(11,112)	0
Total provisions	(5,188)	(9,260)	78
Provision for possible loan losses	(5,144)	(8,987)	75
Other provision	(44)	(273)	523
Main components of balance sheet closing balances	**2015**	**2016**	**%**
Total assets	450,819	453,720	1
Gross customer loans	382,500	388,926	2
Gross customer loans (FX-adjusted)	379,935	388,926	2
Retail loans	313,202	327,544	5
Corporate loans	66,592	61,321	(8)
Allowances for possible loan losses	(22,702)	(31,462)	39
Allowances for possible loan losses (FX-adjusted)	(22,550)	(31,462)	40
Deposits from customers	385,082	366,976	(5)
Deposits from customer (FX-adjusted)	382,659	366,976	(4)
Retail deposits	360,122	341,516	(5)
Corporate deposits	22,536	25,459	13
Liabilities to credit institutions	11,113	8,104	(27)
Subordinated debt	6,265	6,223	(1)
Total shareholders' equity	30,430	27,339	(10)
Loan Quality	**2015**	**2016**	**%/pps**
90+ days past due loan volume (in HUF million)	37,099	43,451	17
90+ days past due loans/gross customer loans	9.7%	11.2%	1.5
Cost of risk/average gross loans	1.37%	2.33%	0.96
Cost of risk/average (FX-adjusted) gross loans	1.38%	2.34%	0.96
Total provisions/90+ days past due loans	61.2%	72.4%	11.2
Performance Indicators	**2015**	**2016**	**pps**
ROA	0.2%	(0.5%)	(0.7)
ROE	3.1%	(7.7%)	(10.8)
Total income margin	3.86%	3.96%	0.09
Net interest margin	3.18%	3.15%	(0.03)
Cost/income ratio	62.6%	62.1%	(0.5)
Net loans to deposits (FX-adjusted)	93%	97%	4
FX rates	**2015 HUF**	**2016 HUF**	**Change %**
HUF/EUR (closing)	313.1	311.0	(1)
HUF/EUR (average)	309.9	312.1	1

- HUF 2.2 billion loss was due to the increasing risk cost (+78% y-o-y)
- Higher DPD90+ ratio (11.2%), improving coverage ratio (72.4%; +11.2 pps y-o-y)
- Stable net interest margin (2016: 3.15%), 2% y-o-y increase of the FX-adjusted loan book

The **OTP Banka Slovensko** posted HUF 2.2 billion loss in 2016, versus HUF 0.9 billion profit in 2015. The sharp increase (+78% y-o-y) of loan loss provisioning in 4Q 2016 was the major reason for the weaker performance which was only partially offset by the increasing operating income (3% y-o-y).

Net interest margin slightly dropped (–3 bps), while net loans decreased by 1% y-o-y, thus net interest income moderated by 2% y-o-y.

In 2016 net fees and commissions income dropped by 3% y-o-y. The reason behind increasing other net non-interest income was due to higher FX result.

In 2016 operating expenses stagnated y-o-y, approaching the end of the year some IT and marketing costs increase arose. In 2016 the increase in the FX-adjusted DPD90+ formation (without the effect of non-performing loan sales and write-offs) was HUF 6 billion versus HUF 4 billion in the base period. The DPD90+ ratio increased by 1.5 pps on a yearly basis to 11.2%. In 2016 around HUF 0.3 billion in non-performing loans were sold or written off. Total risk cost grew by 78% y-o-y. The DPD90+ coverage ratio (72.4%) increased on a yearly basis (+11.2 pps y-o-y).

The FX-adjusted loan book expanded by 2% on a yearly basis due to the intensifying retail lending (+5% y-o-y). The yearly increase of newly disbursed mortgage loans (+90% y-o-y) was related to intensified early repayments and loan refinancing. Disbursement of consumer loans decreased by 20% y-o-y, however their FX-adjusted volume improved by 12% y-o-y. The corporate loan book eroded by 8% y-o-y. The FX-adjusted deposit volume moderated on a yearly basis by 4%. The volume of corporate deposits comprising 7% of the deposit book increased by 13% y-o-y. The standalone IFRS capital adequacy ratio stood at 12.92% at the end of December 2016.

OTP BANKA SRBIJA (SERBIA)

Performance of OTP banka Srbija:

Main components of P&L account	2015 HUF million	2016 HUF million	Change %
After tax profit without the effect of adjustments	(385)	39	(110)
Income tax	9	34	280
Profit before income tax	(394)	5	(101)
Operating profit	1,292	697	(46)
Total income	8,359	7,720	(8)
Net interest income	6,407	5,769	(10)
Net fees and commissions	1,747	1,653	(5)
Other net non-interest income	206	298	45
Operating expenses	(7,067)	(7,023)	(1)
Total provisions	(1,686)	(692)	(59)
Provision for possible loan losses	(922)	(890)	(4)
Other provision	(764)	198	(126)
Main components of balance sheet closing balances	**2015**	**2016**	**%**
Total assets	119,224	123,279	3
Gross customer loans	108,327	108,704	0
Gross customer loans (FX-adjusted)	106,918	108,704	2
Retail loans	45,409	48,180	6
Corporate loans	61,509	60,524	(2)
Allowances for possible loan losses	(31,835)	(26,349)	(17)
Allowances for possible loan losses (FX-adjusted)	(31,230)	(26,349)	(16)
Deposits from customers	73,385	78,583	7
Deposits from customer (FX-adjusted)	72,411	78,583	9
Retail deposits	44,531	48,231	8
Corporate deposits	27,880	30,352	9
Liabilities to credit institutions	10,234	8,572	(16)
Subordinated debt	2,532	2,511	(1)
Total shareholders' equity	29,377	28,805	(2)

Loan Quality	2015	2016	%/pps
90+ days past due loan volume (in HUF million)	42,519	35,504	(16)
90+ days past due loans/gross customer loans	39.3%	32.7%	(6.6)
Cost of risk/average gross loans	0.89%	0.82%	(0.07)
Cost of risk/average (FX-adjusted) gross loans	0.90%	0.83%	(0.08)
Total provisions/90+ days past due loans	74.9%	74.2%	(0.7)
Performance Indicators	**2015**	**2016**	**pps**
ROA	(0.3%)	0.0%	0.4
ROE	(1.3%)	0.1%	1.4
Total income margin	7.31%	6.37%	(0.94)
Net interest margin	5.60%	4.76%	(0.84)
Cost/income ratio	84.5%	91.0%	6.4
Net loans to deposits (FX-adjusted)	105%	105%	0
FX rates	**2015**	**2016**	**Change**
	HUF	**HUF**	**%**
HUF/RSD (closing)	2.6	2.5	(2)
HUF/RSD (average)	2.6	2.5	(1)

- HUF 39 million profit in 2016 due to y-o-y almost halving operating profit and risk cost decreasing by 59%
- The DPD90+ ratio declined to 32.7% (–6.6 pps y-o-y) with a coverage at 74.2%
- Performing loans expanded by 12%, while gross loans grew by 2% y-o-y, FX-adjusted

OTP banka Srbija posted HUF 39 million adjusted profit in 2016 as opposed to the HUF 385 million loss in the base period.

The y-o-y 46% decline of operating profit in 2016 is reasoned by the 8% drop in total income, while operating expenses decreased by 1% y-o-y. Net interest income fell by 10% y-o-y, as the net interest margin shrank by 84 bps y-o-y due to the lower interest rate environment. The net fees and commissions income sank by 5% on yearly basis.

The yearly profit development was favourably affected by the 59% drop of risk cost y-o-y. Improvement in other provision is due to base effect: in 4Q 2015 litigation related provisions were made.

The FX-adjusted increase of the DPD90+ portfolio (adjusted to sales and write-offs) moderated in 2016 (2015: 2.4, 2016: 0.3 billion HUF). The DPD90+ ratio decreased to 32.5% (–6.7 pps y-o-y). The improvement of the ratio was positively affected by around HUF 6.1 billion non-performing loan sale/write-offs during the last four quarters. The total provision coverage of DPD90+ loans slightly decreased y-o-y .

The loan portfolio shows favourable trend, the FX-adjusted performing (DPD0–90) loan book expanded by 12% y-o-y. The corporate segment grew by 12% y-o-y. Retail performing loan volumes also increased (+13% y-o-y).

In 2016 cash loan disbursements were strong throughout the whole year, performing cash loans expanded by 11% y-o-y on an FX-adjusted basis. Retail mortgage loans also advanced (+7% y-o-y).

FX-adjusted total deposits surged by 9% y-o-y. Net loan-to-deposit ratio stood at 105% by year-end (almost flat y-o-y). The capital adequacy ratio of the bank stood at 22.4% at the end of 2016.

[18] Due to a series of decisions on FX mortgages made by the central bank on 24 February 2015 the bank suffered a loss of HUF 211 million in 2015. Those losses were taken out of the P&L of the Serbian subsidiary and were presented on consolidated level within adjustment items.

CRNOGORSKA KOMERCIJALNA BANKA (MONTENEGRO)

Performance of CKB:

Main components of P&L account	2015 HUF million	2016 HUF million	Change %
After tax profit w/o dividends and net cash transfer	909	(1,849)	(303)
Income tax	1	2	186
Profit before income tax	909	(1,851)	(304)
Operating profit	3,146	2,684	(15)
Total income	10,468	10,022	(4)
Net interest income	7,228	6,951	(4)
Net fees and commissions	2,996	2,622	(12)
Other net non-interest income	244	449	84
Operating expenses	(7,322)	(7,337)	0
Total provisions	(2,238)	(4,535)	103
Provision for possible loan losses	(2,266)	(4,289)	89
Other provision	28	(246)	(970)
Main components of balance sheet closing balances	**2015**	**2016**	**%**
Total assets	199,800	197,562	(1)
Gross customer loans	149,775	143,331	(4)
Gross customer loans (FX-adjusted)	148,771	143,331	(4)
Retail loans	72,575	71,683	(1)
Corporate loans	76,196	71,648	(6)
Allowances for possible loan losses	(52,991)	(56,513)	7
Allowances for possible loan losses (FX-adjusted)	(52,636)	(56,513)	7
Deposits from customers	148,117	149,119	1
Deposits from customer (FX-adjusted)	147,348	149,119	1
Retail deposits	113,836	113,697	0
Corporate deposits	33,512	35,422	6
Liabilities to credit institutions	21,829	20,765	(5)
Subordinated debt	0	0	
Total shareholders' equity	23,091	21,188	(8)
Loan Quality	**2015**	**2016**	**%/pps**
90+ days past due loan volume (in HUF million)	63,881	60,801	(5)
90+ days past due loans/gross customer loans	42.7%	42.4%	(0.2)
Cost of risk/average gross loans	1.47%	2.93%	1.46
Cost of risk/average (FX-adjusted) gross loans	1.49%	2.94%	1.45
Total provisions/90+ days past due loans	83.0%	92.9%	10.0
Performance indicators	**2015**	**2016**	**pps**
ROA	0.5%	(0.9)%	(1.4)
ROE	4.0%	(8.4)%	(12.3)
Total income margin	5.29%	5.04%	(0.25)
Net interest margin	3.65%	3.50%	(0.16)
Cost/income ratio	69.9%	73.2%	3.3
Net loans to deposits (FX-adjusted)	65%	58%	(7)
FX rates	**2015 HUF**	**2016 HUF**	**Change %**
HUF/EUR (closing)	313.1	311.0	(1)
HUF/EUR (average)	309.9	311.5	1

- HUF 1.8 billion loss in 2016
- Operating profit decreased by 15% y-o-y reasoned by the decline of core banking revenues
- The annual risk cost doubled, the coverage ratio improved
- The FX-adjusted gross customer loans declined by 4% y-o-y, customer deposits increased by 1% y-o-y

The **Montenegrin CKB Bank** posted HUF 1.8 billion adjusted after tax loss in 2016 versus HUF 0.9 billion profit posted in 2015.
The annual operating profit declined by 15% y-o-y reasoned by a y-o-y 4% decrease in the total income. Within that, the net interest income declined by 4% y-o-y, while net fees and commissions dropped by 12% y-o-y.
The narrowing margins and the decreasing average performing loans had negative impact on the net interest income. Other net non-interest income increased by 84% y-o-y.
The annual operating expenses stagnated in 2016 compare to the previous year.
The total provisions doubled in 2016, mainly due to the increase of provision for possible loan losses in 4Q.
The DPD90+ ratio (42.4%) improved slightly; it decreased by 0.2 pp on annual basis.
The DPD90+ loan volume declined by HUF 2 billion (FX-adjusted, without the effect of non-performing loan sales and write-offs) against HUF 1 billion increase in 2015.
In 2016, HUF 0.5 billion non-performing loans was sold or written off, from which 4Q represented HUF 0.4 billion. The total coverage ratio increased further, it stood at 92.9% at the end of year (+10 pps y-o-y).
The FX-adjusted gross loans declined by 4% y-o-y. The erosion was higher in case of corporate loans (–6% y-o-y), but lower for retail loans (–1% y-o-y).
The FX-adjusted deposits rose by 1% y-o-y explained by the 6% y-o-y increase of corporate deposits.
The capital adequacy ratio calculated according to local requirements stood at 21% at the end of 2016.

STAFF LEVEL AND OTHER INFORMATION

The closing staff number of OTP Group (including the number of employed selling agents) was 32,335 as of 31 December 2016. OTP Group provides services through 1,302 branches and more than 3,927 ATMs in 9 countries of the CEE-region. In Hungary, OTP Bank has an extensive distribution network, which includes 367 branches and 1,883 ATM terminals. The Bank (Hungary) has close to 60 thousands POS terminals.

	31/12/2016				31/12/2015			
	Branches*	ATM	POS	Headcount (closing)	Branches	ATM	POS	Headcount (closing)
OTP Core	367	1,883	59,988	8,293	375	1,895	55,288	8,142
DSK Group	372	892	5,723	4,679	383	874	5,207	4,502
OTP Bank Russia (w/o employed agents)	134	267	1,446	4,744	134	233	1,751	4,787
Touch Bank (Russia)	0	0	0	268	0	0	0	219
OTP Bank Ukraine (w/o employed agents)	84	118	246	2,151	85	105	315	2,146
OTP Bank Romania	100	147	3,374	1,119	108	150	2,848	1,139
OTP banka Hrvatska	103	273	2,269	1,097	110	247	2,048	1,082
OTP Banka Slovenko	61	142	223	667	60	141	216	678
OTP banka Srbija	52	118	2,303	611	56	128	2,248	633
CKB	29	87	4,991	424	29	84	4,895	431
Foreign subsidiaries, total	**935**	**2,044**	**20,575**	**15,758**	**965**	**1,962**	**19,528**	**15,615**
Other Hungarian and foreign subsidiaries**				1,327				1,206
OTP Group (w/o employed agents)				**25,378**				**24,963**
OTP Bank Russia – employed agents				6,324				6,328
OTP Bank Ukraine – employed agents				633				423
OTP Group (aggregated)	**1,302**	**3,927**	**80,563**	**32,335**	**1,340**	**3,857**	**74,816**	**31,713**

* Due to the changes of the data provider group members, the historical employee figures of the other Hungarian and foreign subsidiaries are not comparable.
** Starting from 3Q 2016 a new branch count calculation method has been applied. Under the new method only branches with active employees are included into the branch number. Therefore, the end-2016 branch numbers are not comparable with the previous periods.

STATEMENT ON CORPORATE GOVERNANCE PRACTICE

Corporate governance practice

OTP Bank Plc., being registered in Hungary, has a corporate governance policy that complies with the provisions on companies of the act applicable (Civil Code). As the company conducts banking operations, it also adheres to the statutory regulations pertaining to credit institutions.
Beyond fulfilling the statutory requirements, as a listed company on the Budapest Stock Exchange (BSE), the company also makes an annual declaration on its compliance with the BSE's Corporate Governance Recommendations. After being approved by the General Meeting, this declaration is published on the websites of both the Stock Exchange (www.bet.hu) and the Bank (www.otpbank.hu).

The purposes of applying the Corporate Governance Recommendations of the BSE is to facilitate the transparent and efficient market operation, support the enforcement of the laws as well as harmonise the interests of the organisation, the investors and the organisation's environment.
On the basis of the Corporate Governance Recommendations of the BSE – in line with the "comply or explain" principle – organisations need to report on their compliance with the provisions of certain specific points of the recommendation as well as whether they apply certain suggestions as provided for in the recommendation. Conforming to and observing the provisions of the Corporate Governance Recommendations of the BSE is recommended, although not compulsory for companies listed on the stock exchange and a negative answer in itself does not indicate a deficiency. With regard to the suggestions, companies only need to indicate whether they apply the given guideline or not, they are not required to provide additional explanation.

OTP Bank Plc. provided a negative answer to the following recommendations and suggestions:

R 1.1.2 The Company follows the "one share – one vote" principle.
Each of the Company's ordinary shares ensures one voting right. In keeping with the stipulations of the Company's Articles of Association, voting rights depend specifically on the size of the shareholding.
Transactions, specified in 2.6.2, which depart from regular business practices and the conditions thereof were accepted by the Supervisory Board (Audit Committee).
The Company prepared procedural rules for approving transactions that depart from usual business practices, and this ensures adequate control.
R 2.7.2 The Board of Directors evaluated its own performance in a given business year.
The Company has a Nomination Committee, which has assessed the board's work.
R 2.7.2.1 The Supervisory Board evaluated its own performance in a given business year.
The Company has a Nomination Committee, which has assessed the board's work.
R 2.7.7 The Company has prepared a Declaration on Remuneration and presented it to the General Meeting.
The Declaration on Remuneration contains the remuneration of certain members of the Board of Directors, the Supervisory Board, and the management.
R 4.1.11 The Company has published in its annual report and on its website a Declaration on Remuneration, which describes the remuneration guidelines used and, specifically, the guidelines pertaining to the remuneration of members of the Board of Directors, the Supervisory Board and the management.
G 3.4.5 The Remuneration Committee ensures that a declaration on remuneration is prepared.
In compliance with the applicable European Union directive (CRD IV) and the provisions of the Act on Credit Institutions and Financial Enterprises, the Bank's General Meeting concluding the year 2015, its Board of Directors and Supervisory Board have provided for the review of the Remuneration Policy of the Bank and the Bank Group. In line with the national

and EU legislative environment, the process of implementing the Bank Group's Remuneration Policy includes the methodological framework relating to the identification of activities and employees with a material impact on risk, which constitutes the basis for determining the group of persons subject to the Bank Group's Remuneration Policy, and the rules of procedure relating to the annual evaluation process.

The purpose of the Bank Group's Remuneration Policy is, remaining within the limits of the Bank Group's risk-bearing capacity, to recognise and provide motivational support for the achievement of Bank and Group-level results by the management and holders of key positions at the Bank, and the managers of subsidiaries in the Bank Group.

The Bank Group's Remuneration Policy applies to the members of the Bank's Board of Directors

and Supervisory Board, and – among the staff in an employment relationship with the Bank – the members of the Bank's Management (Chairman & CEO and the deputies thereof), and managers who materially influence the Bank's risk profile and its profit, managers performing special executive functions, managers with control functions, all managers whose salaries are in the same pay scale as that of the managers who are subject to the Remuneration Policy due to their function. Among the managers employed by the subsidiaries of the Bank Group that are subject to consolidated supervision, the subsidiaries' chief executive officers, and in the case of certain subsidiaries their level-2 (deputy) managers, and the managers of certain foreign subsidiary banks with special management and decision-making authority determined under national statutory provisions. The resolution on the persons to whom the Bank Group's Remuneration Policy applies is made by the Bank's Supervisory Board.

The members of the Board of Directors and the Supervisory Board receive an honorarium of a fixed amount for their work in this capacity, and do not receive performance-based remuneration.

For the other personnel included in the scope of the Remuneration Policy, the remuneration is composed of fixed and performance-based components. The proportions of fixed and performance-based components of remuneration are determined by the Bank's Supervisory Board based on the function, size and complexity of the unit being managed.

The proportion of performance-based remuneration may not exceed 100% of fixed remuneration for any person concerned.

The most important basic principle of the Bank Group's Remuneration Policy is that the extent of performance-based remuneration – subject to a preliminary and retrospective assessment of the risks – depends on the extent to which Bank Group/Bank/Subsidiary-level and individual targets are met.

In the case of managers in an employment relationship with the Bank, the evaluation of performance, besides an assessment of the return on risk-weighted assets (RORAC) indicator for the given activity, takes place on the basis of the criteria used to measure strategic and individual performance (financial indicators and indicators of the quality of work performance). In the case of managers at subsidiaries in the Bank Group the evaluation of performance takes place in a differentiated manner, in keeping with the characteristics of the companies' activities. The target values of the indicators are determined by the Bank's Supervisory Board on the basis of the effective financial plan for the given year.

The performance evaluation-based, variable remuneration takes the form of a cash bonus and – where permitted by national legislation – remuneration exchanged for shares or a preferentially-priced share package, in equal proportions. At all the members of the Bank Group, the share-based part of the variable remuneration is provided to the employees concerned by the Bank.

Employees employed by OTP Bank Plc. subject to the personal scope of the Bank Group's Remuneration Policy receiving performance-based remuneration are entitled to acquire a membership stake in OTP Bank MRP Organisation to the extent of the share-based part of their performance-based remuneration on the basis of their voluntary resolution.

The membership stake in OTP Bank MRP Organisation is non-marketable, cannot be credited, cannot be offered as collateral and only enables the individual to receive the actual settlement of the share package if the conditions as stipulated in the Remuneration Policy (the result of the performance evaluation, the subsequent risk assessment) are met. Membership stakes not meeting the conditions revert to OTP Bank Plc.

In keeping with the Credit Institutions Act, as a general rule, payment of 60% of the variable remuneration is staggered over a period of three years, during which period the deferred amount is determined annually in equal proportions. Determination of eligibility to receive the deferred instalments takes place on the basis of a retrospective assessment of the risks. The assessment of the risks is based both on quantitative criteria used to measure prudent operation, and on qualitative evaluation criteria. Based on the assessment of the risks related to the activities of the employees concerned, the deferred part of the performance-based remuneration may be reduced or withheld completely. A further prerequisite for entitlement to the deferred part is a continuing employment relationship.

The remuneration of the members of the Supervisory Board and the Board of Directors, which is determined in a resolution of the General Meeting, is public, while with respect to the remuneration policy, the Bank complies with its public disclosure obligation in accordance with the prevailing statutory provisions.

R 3.1.6 The company published on its website the tasks delegated to the Audit Committee, and the committee's objectives, rules of procedure and composition (specifying the members' names, a brief CV and the date of appointment).

OTP Bank Plc. has established and operates an Audit Committee, which supports the work of the Supervisory Board, and the Bank has published the names of the members, each with a brief CV. The tasks delegated to the Audit Committee, and the objectives and procedural rules of the Committee, are not in the public domain.

R 3.1.6.1 The company published on its website the tasks delegated to the Nomination Committee, and the committee's objectives, rules of procedure and composition (specifying the members' names, a brief CV and the date of appointment).

OTP Bank Plc. has established and operates an Audit Committee, which supports the work of the Supervisory Board, and the Bank has published the names of the members, each with a brief CV. The tasks delegated to the Audit Committee, the objectives and procedural rules of the Committee are not in the public domain.

R 3.4.4.2 The Remuneration Committee reviewed the terms and conditions of contracts that were concluded with the management.

A review of the terms of contracts concluded with members of the management does not fall within the remit of the Remuneration Committee.

R 3.5.1 The Board of Directors has disclosed its reasons for merging the Remuneration and the Nomination Committee.

The Company operates both a Remuneration Committee and a Nomination Committee.

R 3.5.2 The Board of Directors performed the tasks of the Nomination Committee and issued a statement on its reasons for doing so.

The Nomination Committee performed its own tasks.

R 3.5.2.1 The Board of Directors performed the tasks of the Remuneration Committee and issued a statement on its reasons for doing so.

The Remuneration Committee performed its own tasks.

R 4.1.10 The Company provided information about the internal organisation and operation of the Board of Directors and the Supervisory Board.

The Company's website provides information about the operation of its management bodies in the Articles of Association.

G 1.3.1 The Company's General Meeting accepted the chairman of the General Meeting prior to the actual discussion of the agenda items.

For the purpose of the Articles of Association of the Company, the Chairman of the Board or another person mandated by the Board of Directors for this purpose chairs the General Meeting.

G 1.4.2 The Company published its guidelines concerning solutions for preventing hostile takeovers directed at the Company.

The domestic legislation provide appropriate guarantee for the procedures relating to acquisitions and the enforcement of the shareholders' interests.

G 2.5.3 The Company provided information about how it ensures that the Board of Directors remains objective in its evaluation of the

management activities in the event that the position of Chairman & CEO is combined.
A Nomination Committee operates at the Company which evaluates the activity.
G 2.5.5 No member of the Company's Supervisory Board held a position on the Company's Board of Directors or in the management in the three years prior to his/her nomination.
The Supervisory Board of the Company has such a member who held a position in the management of the company in the three years preceding his designation.
G 2.9.1.3 The rules of procedure of the Nomination Committee include the procedure to be followed when the services of an external consultant are used.
For the procedure to be followed when using the services of an external consultant, the Company drafted rules of procedure which provide the appropriate control.
G 2.9.1.4 The rules of procedure of the Remuneration Committee include the procedure to be followed when the services of an external consultant are used.
For the procedure to be followed when using the services of an external consultant, the Company drafted rules of procedure which provide the appropriate control.
G 3.1.2 The chairman of the Audit Committee regularly informs the Board of Directors of the individual meetings of the committee, and the committee prepares at least one report each business year for the executive body and the Supervisory Board.
Based on the Civil Code the Audit Committee is a body assisting the Supervisory Board, its members are elected by the General Meeting from among the independent members of the Supervisory Board. Since the functions of these bodies are closely linked to each other, the chairman of one board is the vice president of the other board and vice versa, so the Supervisory Board is aware of the Audit Committee's decisions. Special reporting is not justified for the Supervisory Board. The Audit Committee does not need to report for the executive body.
G 3.3.5 The Nomination Committee's rules of procedure include the stipulations specified in point 3.3.5.
For the conditions of performing the evaluation activity, the Company has drafted rules of procedure which provide appropriate control.

System of internal controls

The main function of the internal audit system is to protect customers, the company's assets and shareholder's interests, as well as to facilitate and monitor operation in compliance with the statutory provisions.
The internal audit system extends to all of the company's organisational units, business lines and activities, including outsourced activities. To ensure effective auditing, the internal audit system consists of several modular control levels, and is also segmented in line with the departmental structure of the organisation.
The elements of the internal audit system are comprised of in-process and management controls, and an independent internal audit unit and management information system.
OTP Bank Plc. has developed and applies such a uniform internal audit system consistently throughout the Bank Group that is proportionate to the size of the OTP Group and the market share of the Company, includes shareholder audits conducted at the foreign and domestic group members as well as the professional oversight of the internal audit organisations of the financial institutions that are subject to consolidated supervision as specified in the Credit Institutions Act. To this end, standardised internal audit procedures and methodologies pertaining to the operation and activities of group members' internal audit departments are developed, enhanced and applied on a continuous basis.
Internal audit also liaises regularly and cooperates with external auditing bodies.
The independent internal audit unit assists in the legally compliant and effective management of assets and liabilities and the protection of property; it supports secure business operation, the effectiveness, cost-efficiency and success of internal control systems, the minimisation of risks, and moreover – alongside the compliance unit – it detects and reports departures from the provisions of the statutory regulations and internal policies, makes recommendations for the elimination of deficiencies, and monitors the

implementation of the measures. It performs its activities independently, objectively and professionally. Its independence is ensured by the fact that it is professionally overseen by the Supervisory Board, within the framework set out by the Credit Institutions Act.

The independent internal audit organisation was set up in a manner that the execution of ownership controls at the Organisation, in the network and at the foreign and domestic group members, as well as the professional supervision of the foreign and domestic internal audit organisation is properly ensured.

The independent internal audit organisation has an annual audit plan which is approved by the Supervisory Board. The annual plan is prepared using a risk-based methodology and, in addition to focusing on the areas that entail regulatory, business and operational risk, and the other main risk exposures, it emphasizes especially the control of reporting and data, further, it also takes into account the company's prevailing strategic priorities.

The internal audit organisation makes independent reports on its auditing activities for the management bodies at quarterly and annual intervals. In its quarterly reports it gives a group-level, summary account of the audits conducted in the given quarter, the risks identified in the course of its own audits and audits conducted by the authorities, and the success of any action taken to eliminate them. In exceptional cases that require immediate intervention, it provides the management with extraordinary briefings. The audit organisation reports annually on the performance of the tasks stipulated in the group-level annual audit schedule, the audits conducted and other activities, and on the circumstances of the organisation's operation, as well as on any changes to the internal audit system.

The organisation annually prepares, for the Supervisory Board, objective and independent reports in respect of the operation of risk management, internal control mechanisms and corporate governance functions.

The basis for effective group-level risk management is the operation of a standardised, "OTP-compatible" organisational structure as well as regulations and procedures at the subsidiaries concerned. The Company has detailed risk management rules for each of the various types of risk (liquidity, market, country, counterparty, credit, operational, compliance), and these rules are in harmony with the statutory regulations pertaining to prudential banking operations. The annual report describes the risk management practices, the limits, and compliance with these limits.

Within the Company, the Credit Approval and Risk Management Division and the Strategy and Finance Division exercise functional control over the guidelines, methodology and infrastructure of the Bank Group's risk management strategy, the purpose of which is to create a clearly defined, transparent, standardised credit, country, counterparty, market and operational risk management system at group level which complies with the expectations of the supervisory authority and local conditions. The Bank Group's Risk Strategy, as well and the rules on risk prescribed by the Credit Institutions Act, are approved by the Bank's Board of Directors.

The Risk Strategy determines, with respect to the entire Bank Group, the framework for risk management and the principles and guidelines of risk assumption.

With respect to the cornerstones of the risk management methodologies, and the main risk topics for Bank Group members, the final decision-making competence is held by the Group members' risk committees (Credit and Limit Committee, Workout Committee, Group Operational Risk Committee).

The Bank's risk management system encompasses the identification of the risks, assessment of their impact, elaboration of the necessary action plans, and the monitoring of their effectiveness and results. The management make their business decisions in a knowledge of all the key risks. All significant risks related to internal and external operations, or to compliance with financial and legal requirements, as well as numerous other risks, are evaluated and managed using a clearly-defined and transparent internal mechanism.

In adopting its accounting policy and defining its accounting order the Bank uses its own control mechanisms and processes ensuring properly to reach the following goals: to draw

up reliable financial reports, to carry out various successful and effective operations for the company, to comply with the legislation in force and to fully comply with the provisions related to the supplying of data to the Regulators.
All competencies of the banking units responsible for drawing up the report and the accounting control are set up in an internal regulation instrument.
The internal regulation shall define the closing competencies and data supplying necessary for drawing up the interim (monthly, quarterly and six-month) and the annual disclosure reports. It provides a complete guidance for the interim (monthly, quarterly, six-month) and the annual closing competencies, tasks and supplying of data. The internal regulation sets up deadlines and appoints responsible officers for the tasks. The internal regulation also orders the inventory and conciliation of ledger records containing provisional registration of items which – for various reasons – could not be immediately cleared on a real account of assets/liabilities or on the general ledger accounts serving for registration of items outside the balance sheet at the time when they emerged.
Act no. 100 of 2000 on Accounting provides that the report shall rest on an inventory. Internal regulation sets detailed rules of inventory tasks in order to ensure a genuine balance sheet rest on proper definition of stocks of assets and liabilities, to check the bookkeeping and the accountancies and to reinforce this way the documentary discipline, to protect belongings, to explore inventories of decreased value and the assets out of use.
Furthermore, the Bank draws up and applies a detailed accounting system and continuously adapts new accounting measurements related the actual products and activities. Internal regulations on accounting are revised annually and updated if necessary. The legal, the internal audit and the compliance area are involved in the drafting and amending of these regulations.

General meeting, Articles of Association

The General Meeting is the supreme governing body of OTP Bank Plc. The regulations pertaining to its operation are set forth in the Company's Bylaws, and comply fully with both general and special statutory requirements. Information on the General Meeting is available in the Corporate Governance Report.

Regulations and information to be presented in the Business Report concerning securities conferring voting rights issued by the Company and senior officials, according to the effective Articles of Association, and ownership structure

The Company's registered capital is HUF 28,000,001,000, that is twenty-eight thousand million one thousand Hungarian forint, divided into 280,000,010, that is Two hundred and eighty million and ten dematerialised ordinary shares with a nominal value of HUF 100 each, and a total nominal value of HUF 28,000,001,000, that is twenty-eight billion one thousand Hungarian forint.
There are no restrictions in place concerning the transfer of issued securities constituting the registered capital of the Company.
No securities with special control rights have been issued by the Company.
The Company does not run control systems prescribed by an employee ownership program, where control rights are not exercised directly by the employees.

Rules on the restrictions of the voting rights:
The Company's ordinary shares confer one vote per share.
An individual shareholder or group of shareholders may not exercise voting rights in respect of in an extent exceeding 25%, or – if the voting rights of another shareholder or group of shareholders exceed 10% – exceeding 33% of the total voting rights represented by the shares conferring voting rights at the Company's General Meeting.
The shareholder is obliged to notify the Company's Board of Directors without delay if the shareholder directly or indirectly, or together with other shareholders in the same group of shareholders, holds more than 2% of the voting rights represented by the shares

conferring voting rights at the Company's General Meeting. Concurrently with this, the shareholder is obliged to designate the shareholders through which the indirect voting right exists, or the members of the group of shareholders. In the event of a failure to provide such notification, or if there are substantive grounds for assuming that the shareholder has made a misleading declaration regarding the composition of the shareholder group, then the shareholder's voting right shall be suspended and may not be exercised until the shareholder has met the above obligations. The notification obligation stipulated in this paragraph and the related legal consequences are also incumbent upon individuals who are classified or may be classified as the Company's shareholders under Article 61 of the Capital Markets Act. The Company must also be provided with proof of the conditions for exemption from the notification obligation in accordance with Section 61 (7)–(8) and Section 61 (10)–(11)–(12), of the Capital Markets Act.

Shareholder group: the shareholder and another shareholder, in which the former has either a direct or indirect shareholding or has an influence without a shareholding (collectively: a direct and/or indirect influence); furthermore: the shareholder and another shareholder who is exercising or is willing to exercise its voting rights together with the former shareholder, regardless of what type of agreement between the participants underlies such concerted exercising of rights.

For determining the existence and extent of the indirect holding, the rules of the Credit Institutions Act relating to the calculation of indirect ownership shall be applied.

If the voting rights that may be exercised by a shareholder group exceed the threshold stipulated in the first paragraph of this section, the voting rights shall be reduced in such a way that the voting rights relating to the shares most recently acquired by the group of shareholders shall not be exercisable.

If there are substantive grounds to presume that the exercising of voting rights by any shareholder or shareholders might result in a breach of the rules of the Capital Markets Act relating to the acquisition of a controlling interest, the Board of Directors' authorised representative responsible for the registration of shareholders at the venue of the General Meeting, or the Chairman of the General Meeting, may exclude the affected shareholders from attending the General Meeting or exercising voting rights.

The General Meeting has exclusive authority with respect to the decision regarding the delisting of the shares (qualified majority).

The Company is not aware of any kind of agreements among the owners that could give rise to the restriction of the transfer of issued securities and/or the voting rights.

Rules on the appointment and removal of executive officers, and rules on amendment of the Articles of Association:

When making the decisions, shares embodying multiple voting rights shall represent one share.

The members of the Board of Directors are elected by the General Meeting based on its decision uniformly either for an indefinite period or for five years; in the latter case the mandate ends with the General Meeting concluding the fifth financial year following the election.

The mandate of a member elected during this period expires together with the mandate of the Board of Directors.

The Board of Directors elects a Chairman and, may elect one or more Deputy Chairmen, from among its own members, whose period of office shall be equal to the mandate of the Board of Directors. The Chairman of the Board of Directors is also the Chief Executive Officer (Chairman & CEO) of the Company.

The membership of the Board of Directors ceases to exist by

a) expiry of the mandate,
b) resignation,
c) recall,
d) death,
e) the occurrence of grounds for disqualification as regulated by law,
f) termination of the employment of internal (executive) Board members.

The General Meeting has exclusive authority with respect to the following matters:

- the recall of members of the Board of Directors, the Supervisory Board and Audit

Committee, and of the auditor; (qualified majority).

More than one third of the members of the Board of Directors and the non-executive members of the Supervisory Board may be recalled within a 12-month period only if any shareholder holds more than 33% of the shares issued by the Company, which have been obtained by the shareholder by way of a public purchase offer;
- except in the cases referred by these Articles of Association to the authority of the Board of Directors, the establishment and amendment of the Articles of Association; (qualified majority); the General Meeting decides on proposals concerning the amendment of the Articles of Association – based on a resolution passed by share-holders with a simple majority – either individually or en masse.

  The Board of Directors is exclusively authorised to make decisions regarding any change in the Company's name, registered office, permanent establishments and branches, and in the Company's activities – with the exception of its core activity – and, in relation to this, to modify the Articles of Association should it become necessary to do so on the basis of the Civil Code or the Articles of Association.

The Board of Directors is obliged to
- prepare the Company's financial statements in accordance with the Accounting Act, and make a proposal for the use of the profit after taxation;
- prepare a report once a year for the General Meeting, and once every three months for the Supervisory Board, concerning management, the status of the Company's assets and business policy;
- provide for the proper keeping of the Company's business books;
- perform the tasks referred to its authority under the Credit Institutions Act, in particular:
  - ensuring the integrity of the accounting and financial reporting system;
  - elaborating the appropriate strategy and determining risk tolerance levels for each business unit concerned;
  - setting risk assumption limits;
  - providing the necessary resources for the management or risk, the valuation of assets, the use of external credit ratings and the application of internal models.

The following, in particular, come under the exclusive authority of the Board of Directors:
- election of the Chairman & Chief Executive Officer of the Company, and exercising employer's right in respect thereof;
- election of one or more Deputy Chairmen of the Board of Directors;
- determination of the annual plan;
- the analysis and assessment of the imple-mentation of business-policy guidelines, on the basis of the Company's quarterly balance sheet;
- decisions on transactions referred to the authority of the Board of Directors by the Company's organisational and operational regulations;
- decision on launching, suspending, or terminating the performance of certain banking activities within the scope of the licensed activities of the Company;
- designation of the employees entitled to sign on behalf of the Company;
- decision on the increasing of registered capital at the terms set out in the relevant resolution of the General Meeting;
- decision to acquire treasury shares at the terms set out in the relevant resolution of the General Meeting;
- decision on approving internal loans in accordance with the Credit Institutions Act;
- decision on the approval of regulations that fundamentally determine banking operations, or are referred to its authority by the Credit Institutions Act. The following shall qualify as such regulations:
  - the collateral evaluation regulations,
  - the risk-assumption regulations,
  - the customer rating regulations,
  - the counterparty rating regulations,
  - the investment regulations,
  - the regulations on asset classification, impairment and provisioning,
  - the organisational and operational regulations, which contain the regulations on the procedure for assessing requests related to large loans,

– the regulations on the transfer of signatory rights;

- the decision on approving the Rules of Procedure of the Board of Directors;
- decision on steps to hinder a public takeover procedure;
- decision on the acceptance of a public purchase offer received in respect of treasury shares;
- decision on the commencement of trading in the shares in a regulated market (flotation);
- decision on the cessation of trading in the shares in a given regulated market, provided that the shares are traded in another regulated market (hereinafter: transfer).

The Board of Directors is exclusively authorised to:

- decide, in the cases specified in the Civil Code, on acceptance of the Company's interim balance sheet, subject to the prior approval of the Supervisory Board;
- decide, instead of the General Meeting, to pay an advance on dividends, subject to the preliminary approval of the Supervisory Board;
- make decisions regarding any change in the Company's name, registered office, permanent establishments and branches, and in the Company's activities – with the exception of its core activity – and, in relation to this, to modify the Articles of Association should it become necessary to do so on the basis of the Civil Code or the Articles of Association;
- make decision on mergers (if, according to the provisions of the law on the transformation, merger and demerger of legal entities, the approval of the General Meeting is not required in order for the merger to take place).

The Board of Directors directly exercises employer's rights in respect of the Chairman & CEO. The person affected by a decision may not participate in the decision making. Employer rights in respect of the executive directors of the Company are exercised by the Board of Directors through the Chairman & CEO, with the proviso that the Board of Directors must be notified in advance of the appointment and dismissal of the Deputy CEOs. With regard to issues related to the exercising of employer's rights in respect of employees, the Company is represented by the Chief Executive Officer and by the senior company employees defined in the Organisational and Operational Regulations of the Company, in accordance with the delegation of authority approved by the Board of Directors.

The Board of Directors may delegate, to individual members of the Board of Directors, to executive directors employed by the Company, and to the heads of the individual service departments, any task that does not come under the exclusive authority of the Board of Directors in accordance with these Articles of Association or a General Meeting resolution.

The Company may acquire treasury shares in accordance with the rules of the Civil Code. The prior authorisation of the General Meeting is not required for the acquisition of treasury shares if the acquisition of the shares is necessary in order to prevent a direct threat of severe damage to the Company (this provision is not applicable in the event of a public purchase offer aimed at buying up the Company's shares), as well as if the Company acquires the treasury shares in the context of a judicial procedure aimed at the settlement of a claim to which the Company is entitled, or in the course of a transformation.

The Company has not made agreements in the meaning of points (j) and (k) in paragraph 95/A of Act No. C of 2000 on Accounting.

Ownership structure of OTP Bank Plc. as at 31 December 2016

Description of owner	Total equity					
	At the beginning of actual year			End of actual period		
	%[1]	%[2]	Qty	%[1]	%[2]	Qty
Domestic institution/company	20.31%	20.58%	56,865,293	20.20%	20.47%	56,561,346
Foreign institution/company	63.77%	64.62%	178,546,741	64.83%	65.71%	181,528,602
Domestic individual	5.95%	6.03%	16,656,480	3.88%	3.93%	10,852,905
Foreign individual	0.43%	0.44%	1,215,093	0.16%	0.16%	447,025
Employees, senior officers	1.37%	1.38%	3,825,466	1.33%	1.35%	3,726,348
Treasury shares[3]	1.31%	0.00%	3,677,506	1.33%	0.00%	3,737,768
Government held owner[4]	0.09%	0.09%	238,312	0.08%	0.08%	225,928
International Development Institutions[5]	0.01%	0.01%	38,242	0.02%	0.02%	49,715
Other[6]	6.76%	6.85%	18,936,877	8.17%	8.28%	22,870,373
Total	**100.00%**	**100.00%**	**280,000,010**	**100.00%**	**100.00%**	**280,000,010**

[1] Ownership share
[2] Voting rights
[3] Treasury shares include the aggregated amount of own shares held by the mother company, the subsidiaries and ESOP.
[4] E.g.: State Privatization Holding Co. Ltd., Social Security, Municipality, 100% state-owned companies, Pension Reform and Debt Reduction Fund etc.
[5] E.g.: EBRD, EIB etc.
[6] Non-identified shareholders according to the shareholders' registry.

Number of treasury shares held in the year under review (2016)

	1 January	31 March	30 June	30 September	31 December
OTP Bank	1,603,946	1,575,975	1,644,899	1,769,833	1,281,704
ESOP					382,504
Subsidiaries	2,073,560	2,073,560	2,073,560	2,073,560	2,073,560
Total	**3,677,506**	**3,649,535**	**3,718,459**	**3,843,393**	**3,737,768**

Shareholders with over/around 5% stake as at 31 December 2016

Name	Number of shares	Ownership	Voting rights
Megdet, Timur and Ruszlan Rahimkulov	22,931,972	8.19%	8.30%
MOL (Hungarian Oil and Gas Company Plc.)	24,000,000	8.57%	8.69%
Groupama Group	22,692,685	8.10%	8.21%
OPUS Securities S.A.	14,496,476	5.18%	5.25%

Committees

Members of the Board of Directors

Dr. Sándor Csányi – Chairman
Mr. Antal György Kovács
Mr. László Wolf
Mr. Mihály Baumstark
Dr. Tibor Bíró
Mr. Tamás Erdei
Dr. István Gresa
Dr. Antal Pongrácz
Dr. László Utassy
Dr. József Vörös

Members of the Supervisory Board

Mr. Tibor Tolnay – Chairman
Dr. Gábor Horváth – Deputy Chairman
Mrs. Ágnes Rudas
Mr. András Michnai
Mr. Dominique Uzel
Dr. Márton Gellért Vági

Members of the Audit Committee

Dr. Gábor Horváth – Chairman
Mr. Tibor Tolnay
Mr. Dominique Uzel
Dr. Márton Gellért Vági

The résumés of the committee and board members are available in the Corporate Governance Report/Annual Report.

Personal and organizational changes

In 2016 there was no change in the composition of Audit Committee and the Auditor of the Bank.
In accordance with the decision of the Board of Directors of the Bank, effective from 25 January 2016 Mr. András Tibor Johancsik has been in charge of running the IT and Operations Division as the Head of it, furthermore from 24 February 2016 his Deputy CEO nomination came into force.
OTP Bank's Board of Directors member Mr. Péter Braun passed away on 7 April 2016.
From 14 April 2016, Mr. György Kovács Antal's membership in the Supervisory Board ceased.
From 14 April 2016, the memberships of Mr. Zsolt Hernádi and Mr. István Kocsis in the Board of Directors ceased.
The employment of Dr. Antal Pongrácz, Deputy Chairman, Deputy CEO and Head of Staff Division, as well as that of Dr István Gresa, Deputy CEO and Head of the Credit Approval and Risk Management Division ceased on 14 April 2016 due to their retirement. Effective from 15 April 2016 the Chairman and CEO of the Bank entrusted Mr. György Kiss-Haypál to run the Credit Approval and Risk Management Division (according to the terms of the Act on Financial Institutions this position will not be deemed as executive).
The Annual General Meeting appointed Dr. Sándor Csányi, Mr. Mihály Baumstark, Dr. Tibor Bíró, Mr. Tamás György Erdei, Dr. István Gresa, Mr. Antal György Kovács, Dr. Antal Pongrácz, Dr. László Utassy, Dr. József Vörös, Mr. László Wolf as member of the Board of Directors of the Company until the Annual General Meeting closing the 2020 business year of the Company, but no later than 30 April 2021.
The Annual General Meeting appointed Mrs. Ágnes Rudas, as member of the Supervisory Board of the Company until the Annual General Meeting closing the 2016 business year of the Company, but no later than 30 April 2017.

Operation of the executive boards

OTP Bank Plc. has a dual governance structure, in which the Board of Directors is the Company's executive body, while the Supervisory Board performs oversight tasks. The effective operation of Supervisory Board is supported by the Audit Committee.
In order to assist the performance of the governance functions the Board of Directors founded and operates, as permanent or special committees, such as the Management Committee, the Management Coordination Committee or the Remuneration Committee, the Nomination Committee and the Risk Assumption and Risk Management Committee. To ensure effective operation OTP Bank Plc. also has a number of other permanent and special committees.
OTP Bank Plc. gives an account of the activities of the executive boards and the committees every year in its Corporate Governance Report.
The Board of Directors held 7, the Supervisory Board held 9 meetings, while the Audit Committee gathered 2 times in 2016.
In addition, resolutions were passed by the Board of Directors on 97, by the Supervisory Board on 29 and by the Audit Committee on 10 occasions by written vote.

Policy of diversity

OTP Bank Plc. determines and regulates the criteria for the selection of senior executives in line with European Union as well as domestic legal requirements and directives fundamentally determining the operation of credit institutions. When designating members of the management bodies (Board of Directors, Supervisory Board) as well as appointing members of the Board of Directors and administrative members (Management), OTP Bank Plc. considers the existence of professional preparation, the high-level human and leadership competence, the versatile educational background, the widespread business experience and business reputation of the utmost importance, at the same time, it is also highly committed to taking efficient measures in order to ensure diversity with regard to corporate operation, including the gradual improvement in women's participation rate.
With this in mind, OTP Bank Plc.'s Nomination Committee continuously keeps tracking the European Union and domestic legislation

relating to women's quota on its agenda, in that when unambiguously worded expectations are announced, it promptly takes the necessary measures.

It is important to note, however, that, as a public limited company, the selection of the members of the management bodies falls within the exclusive competence of the General Meeting upon which – beyond its capacity to designate enforcing the above aspects to maximum effect – OTP Bank Plc. has no substantive influence.

For the purposes of OTP Bank Plc.'s Articles of Association, a Board of Directors comprising 5–11 members and a Supervisory Board comprising 5–9 members are set up at the Bank. The Board of Directors in its current form operates with 10 members and has no female member, while the Supervisory Board comprises 6 members and has one female member as of 15 April, 2016. The management of OTP Bank Plc. currently comprises 5 members and has no female member.

ENVIRONMENTAL POLICY, ENVIRONMENTAL PROJECTS

Aspiring to be a good corporate citizen, OTP Bank assigns top priority to environmental protection, good environmental stewardship, leading by example, and last but not least to inspire others to adopt environmentally conscious practices. In addition to providing top-of-the-line financial services, the Bank intends to exert more and more effort each year to reduce transaction-related paperwork and energy consumption, to constantly be on the lookout for solutions with low environmental impact, as well as to strive for and achieve the broadest possible application of such measures.

OTP Group is a law-abiding corporate citizen in the area of environmental stewardship. No environmental fine has been levied on OTP Bank or any of its subsidiary banks in 2016.

Besides compliance with the applicable law, the Group's efforts in this domain continue to be guided by rationalization and efficient resource management, as well as by stable operational expenditures. Still, the Group is always ready to extend immediate and effective assistance in crisis situations, as the preservation of natural treasures and the reduction of the respective environmental impact of operations are core values of OTP Bank corporate social responsibility.

The Foundations of our Responsible Operations

Our core CSR values have remained constant in recent years. Our Corporate Social Responsibility strategy (CSR Strategy) sets forth and defines our applicable guidelines and objectives. Our annual Corporate Social Responsibility Report presents our goals and accomplishments and is published on our website. Furthermore, the Bank's Code of Ethics has stated the commitment to environmental protection and to a healthy workplace. The Bank's Environmental Protection Regulations have been effective since 2009, while the internal corporate guidelines continue to enable environmentally conscious operations in compliance with applicable law.

OTP Facility Management coordinates the company's environmental activities in line with the existing time schedule. The organization carries out tasks related to regulatory reporting, coordinates and supervises the collection and disposal of hazardous waste (worn out office equipment and electronic waste), in compliance with prevailing regulations, on the company-wide level.

Environmentally conscious waste management

The Bank steadily continues to enforce the following order of priority: "prevention of waste production: reuse/recycling/disposal". Collecting waste selectively and cutting back on paper use is an integral part of this effort.

As compared to the corresponding period in the previous year, it can be established that within OTP Bank, in regard of the central office buildings, the selectively collected amount of PET and office paper shows a downward trend. Waste from PET plastic bottles has lessened by 8% while waste from office paper dropped by 28%. The reduction of PET waste can be attributed to a change in consumption habits, while the decreased amount of paper waste is due to the efficiency of the measures taken to cut back on paper use. This latter is realized by reducing the scope of documents to be printed, by networking printers, and by digitizing documents.

Reducing paper use

OTP Group has set the goal to cut back on paper use by reducing printing. Over the past two years, virtually all of our subsidiary banks have launched projects to that effect. Where allowed by applicable law, electronic account statements have been available for years from all members of OTP Group.
We have continuously been providing incentives for customers to cancel paper-based statements. The proportion of electronic statements has significantly grown at our Romanian, Ukrainian, Russian and also Serbian subsidiary banks in the past year, in equal proportions pertaining to retail deposit accounts, statements related to cards, as well as foreign currency bank account statements. At our Serbian subsidiary bank, the proportion of e-statements is almost 100%.
We are continuously examining on a group level how our services and the materials to be provided for customers could be provided electronically, which would further reduce the use of paper and printing ink. In OTP Bank, we expect that the introduction of E-Repository will save us approximately 1.4 million pages of paper annually.
Our actions and activities have, for several years, been guided by the effort to sustain our operational costs at the prevailing level.
We are performing targeted investments and are focusing on expanding the scope of paper-free processes.
We have made our services accessible online in case of taking loans in the form of personal loans or in case of concluding contracts for current account loans. The possibility of making statements in an electronic form is also viable in the case of Long-term Investment deposits and securities accounts. From 2016 on, the opening of a business account and the taking of a loan can be performed simply and in a paper-free manner through an online channel. In order to facilitate a paper-free client service, digital signing pads have been introduced in our branch offices.

At our foreign subsidiaries:

- At DSK Bank branches, we have introduced printing on both sides of the paper. On several occasions we sent e-mails to our customers instead of printed letters.
- In Romania, due to the integration of Millennium Bank and the CHF conversion program, we had to inform our customers on paper pursuant to the regulatory provisions. We have been striving to replace paper use with electronic means of information wherever possible.
- In Serbia, paper use has decreased thanks to the new logistics software. On the other hand, paper use has increased due to the legally mandated mandatory client information obligation.
- In Ukraine, we only issue electronic documents on account movements, instead of paper based ones.
- In Russia, we have launched a paper-free POS project so that in the future, the number of paper sheets necessary for a loan application can be decreased from 47 to 1 or 2.

Environmentally conscious energy use

We are continuously modernizing our systems at all of our subsidiary banks and have been installing energy-efficient, modern building engineering solutions and energy-efficient lighting as part of our construction investments. In the last few years, we have given priority to replacing the lightning on advertising walls and facades in branches, with LED lamps, both in the parent bank and foreign subsidiary banks, thereby achieving approximately 85% energy savings with such equipment.

- In the Serbian central office, the procurement of reactive power compensation equipment has been completed.
- In Ukraine and Russia, after introducing energy efficient lighting indoors, outdoor lighting panels were also replaced with LED lighting.
- In two branches of CKB Bank, we replaced the old heating system with new, more energy efficient equipment; we insulated the building and installed energy saving lighting.
- We have installed LED lighting in 105 DSK branch offices.
- The new energy supplier of OTP Banka Slovensko supplies the bank with renewable energy, i.e. provides green energy solutions.

We are proud to use renewable energy sources. Our Hungarian sites continue to operate solar collectors on nearly 460 square meters, while our central archive uses geothermic energy. First among Croatian banks OTP banka Hrvatska generates a part of the energy required for its operation through solar power plants. Currently, the renewable energy is supplied by the power plants built in Dubrovnik and Zadar. The facility in Zadar is the second solar power plant of OTP banka Hrvatska (a 21 kWP output photovoltaic system), as a 25kWp output solar plant on the rooftop of the Bank's office building in Dubrovnik has been operating for a year. The energy generated is utilised by the office buildings (air-conditioning, lighting, IT, elevators etc.). The magnitude of the second investment comes to 361,000 Kuna, which has been fully financed by the Bank. OTP banka Hrvatska plans to build a third solar plant, on top of its Headquarters in Pula. The output of the new facility will be 30 kWp and is planned to be completed in 2016/2017. Measures aimed at reducing the environmental load play an important role in the business strategy of OTP banka Hrvatska, consequently they plan to implement projects with the objective of utilising renewable energy. In addition to all this, OTP banka Hrvatska offers a loan product titled "Sunny loan" in its services portfolio designed to build energy efficient apartments, attracting considerable interest from clients. In its program titled "Green way for environment protection" the bank aims to reduce its ecological footprint, increase energy efficiency and improve the performance of its waste management system.

Shaping perceptions

Protection of our natural resources and treasures has long been a priority of OTP Bank. The Bank operates a Hiking/Touring Group (with a 150 members) with the intent of raising the interest of employees in hiking and touring, increasing the number of those participating in exploring the nature, and consequently them taking part in several voluntary programs during the year. We have organised a number of voluntary programs during the past years in order to involve members of the group in tangible environment protection efforts. Programs of this kind were litter picking around the Tisza Lake, or previously the restoration of a resting place in Hárs-hegy (Hárs Peak) that was built by OTP employees a decade earlier. Our colleagues have, for years, incessantly participated in voluntary work related to events such as the "TeSzedd a Kéken" (litter picking) and Earth Day.
Since 2012 OTP Bank has been taking part in WWF's International Global Climate Energy Initiative, the Earth Hour, raising awareness to the importance of climate protection.
Since years, CKB Bank has been the supporter of the National Parks of Montenegro. Employees take an active role in the relevant campaigns.
Starting from 2015, OTP Bank has been providing trainings not only for its employees, but also its partners (agents, brokers) on the bank's corporate social responsibility and environment-friendly operation. In order for agents to perform their work according to the bank's corporate ethics, compliance with the Code of Ethics and Bank Security regulations is a prerequisite, which is verified by regular test purchases.

Awards and Recognition

RFU CEERIUS INDEX: In recognition of our performance in the field of sustainability, we have been selected to be listed on the Responsible Investment Universe Index of the Vienna Stock Exchange since 2009. The index may feature regional listed companies that are awarded the best ratings in sustainability analysis in social, environmental and economic terms compiled by RFU (Reinhard Friesenbichler Unternehmens-beratung).

We wish to make the stewardship of our environment a priority to our staff and customers. Accordingly, we provide ongoing updates about our environmental protection activities on our corporate social responsibility webpage: www.otpbank.hu/csr/en/main

Footnotes to the table 'consolidated net profit breakdown by subsidiaries (IFRS)'

General note: regarding OTP Core and other subsidiaries, profit after tax is calculated without received dividends and net cash transfers. Dividends and net cash transfers received from non-group member companies are shown on a separate line in one sum in the table, regardless to the particular receiver or payer group member company.

(1) OTP Core, Corporate Centre and foreign banks aggregated, excluding one-timers.

(2) OTP Core is an economic unit for measuring the result of core business activity of OTP Group in Hungary. Financials of OTP Core are calculated from the partially consolidated IFRS financial statements of the companies engaged in OTP Group's underlying banking operation in Hungary. These companies include OTP Bank Hungary Plc., OTP Mortgage Bank Ltd., OTP Building Society Ltd., OTP Factoring Ltd., OTP Financial Point Ltd., and companies providing intragroup financing. The consolidated accounting results of these companies are segmented into OTP Core and Corporate Centre. Latter is a virtual entity.

(3) Within OTP Group, the Corporate Centre acts as a virtual entity established by the equity investment of OTP Core for managing the wholesale financing activity for all the subsidiaries within OTP Group but outside OTP Core. Therefore the balance sheet of the Corporate Centre is funded by the equity and intragroup lending received from OTP Core, the intragroup lending received from other subsidiaries, and the subordinated debt and senior notes arranged by OTP Bank under its running EMTN program. From this funding pool, the Corporate Centre is to provide intragroup lending to, and hold equity stakes in OTP subsidiaries outside OTP Core. Main subsidiaries financed by Corporate Centre are as follows: Hungarians: Merkantil Bank Ltd., Merkantil Car Ltd., Merkantil Leasing Ltd., OTP Real Estate Leasing Ltd., OTP Fund Management Ltd., OTP Real Estate Fund Management Ltd., OTP Life Annuity Ltd.; foreigners: banks, leasing companies, factoring companies.

(4) From 1Q 2015 the performance of OTP Bank Russia does not contain the volumes and financial result of Touch Bank. (The performance of Touch Bank was shown separately from OTP Bank Russia's performance for the first time in the Summary of the full-year 2015 results, with retroactive effect from 1Q 2015.) From 1Q 2015 the statement of recognised income and balance sheet of LLC MFO OTP Finance was included in the Russian performance. The pre-tax gain realised on the perpetual EUR 500 million subordinated Notes transaction within the Group in 3Q 2014 was eliminated from the performance of OTP Bank Russia.

(5) Touch Bank is a digital bank being part of OTP Bank Russia from legal point of view, and it is operating under the same banking license, but as a separate business line. In order to provide transparent information Touch Bank is presented as a separate virtual entity and as an independent activity. The performance of Touch Bank was shown separately from OTP Bank Russia's performance for the first time in the Summary of the full-year 2015 results, with retroactive effect from 1Q 2015.

(6) From 4Q 2008 figures are based on the aggregated financial statements of OTP Bank JSC and LLC OTP Leasing Ukraine, from 4Q 2009 the result of LLC OTP Factoring Ukraine was also aggregated, while in 4Q 2010 the statement of recognised income and balance sheet of LLC OTP Credit was also added.

(7) From 3Q 2010, statements are based on the aggregated financials of DSK Group and the newly established Bulgarian collection company, OTP Factoring Bulgaria LLC. DSK Group balance sheet contains the loans sold to the factoring company at before sale gross value and the related provisions as well.

(8) Net earnings are adjusted with the result of CIRS swap transactions executed with OTP Bank Hungary in relation to interbank financing. Before transfer balance sheet numbers are displayed. From 2Q 2010 the statement of recognised income and balance sheet of OTP Faktoring SRL was included.

(9) Including the financial performance of OTP Factoring Serbia d.o.o from 4Q 2010. Banca Millennium was consolidated into OBR's results from 1Q 2015.

(10) Banco Popolare Croatia was consolidated into OBH's results from 2Q 2014. From 1Q 2015 including the financial result and volumes of OTP Faktoring d.o.o.

(11) From 2011 on the balance sheet contains consolidated data of OTP Banka Slovensko and OTP Faktor Slovensko s.r.o., adjusted for loans sold to OTP Bank Plc. and OTP Factoring Ltd., and the related interbank financing in the net amount of the sold loans. The recoveries of sold loans to OTP Faktoring are recognised in the P&L accounts as risk cost decreasing elements since 2011. From 2012 on P&L data and related indices are adjusted for the special banking tax and the Slovakian Deposit Protection Fund contributions being introduced again in 2014, as well as the contribution into the Resolution Fund.

(12) Including the financial performance of OTP Factoring Montenegro d.o.o.

(13) Aggregated after tax profit of Merkantil Bank and Merkantil Car without dividends, net cash transfer, other adjustment items and provisioning for investments in subsidiaries.

(14) From 4Q 2009: OTP Leasing Romania IFN S.A. (Romania), Z plus d.o.o. (Croatia) (until 3Q 2011), OTP Leasing d.d. (Croatia), DSK Leasing AD (Bulgaria).

(15) LLC AMC OTP Capitol (Ukraine) and OTP Asset Management SAI S.A. (Romania), DSK Asset Management (Bulgaria).

(16) HIF Ltd. (United Kingdom), OTP Faktoring Slovensko (Slovakia) (until 1Q 2011), OTP Buildings (Slovakia), OTP Real Slovensko (Slovakia), Velvin Ventures Ltd. (Belize), Debt Management Project 1 Montenegro d.o.o. (Montenegro), R.E. Four d.o.o., Novi Sad (Serbia), SC Aloha Buzz SRL, SC Favo Consultanta SRL, SC Tezaur Cont SRL (Romania), Cresco d.o.o. (Croatia).

(17) Total Hungarian subsidiaries: sum of the adjusted after tax results of Hungarian group members, Corporate Centre and related eliminations.

(18) Total Foreign subsidiaries: sum of the adjusted after tax profits of foreign subsidiaries and one-off items (after tax).

Calculation of adjusted lines of IFRS profit and loss statements presented in the business report

In order to present Group level trends in a comprehensive way in the Interim Management Report, the presented consolidated and separate profit and loss statements of the Report were adjusted in the following way, and the adjusted P&Ls are shown and analysed in the Report. Consolidated accounting figures together with Separate accounting figures of OTP Bank are still disclosed in the Financial Data section of the Report.

Adjustments:

- As non-recurring results, the after tax effect of the following items are shown separately on the Statement of Recognised Income: received dividends, received and paid cash transfers, goodwill write-offs, the tax shield effect of investment write-offs, special tax on financial institutions, the one-timer payment compensating the underperformance of the financial transaction tax in 2013, the fine imposed by the Hungarian Competition Authority and the risk cost created in relation to the decision of the Hungarian Competition Authority, the corporate tax impact of the transfer of general risk reserves to retained earnings, the effect of acquisitions, the one-off impact of regulatory changes in relation to consumer contracts and the impact of the related methodological changes in Hungary, the expected one-off impact of regulatory changes related to CHF consumer contracts in Croatia, the one-off impact of regulatory changes related to FX consumer contracts in Serbia, the expected one-off impact of the CHF mortgage loan conversion programme in Romania, the risk cost created toward Crimean exposures from 2Q 2014, the risk cost related toward exposure to Donetsk and Luhansk from 3Q 2014, the revaluation of reverse mortgage portfolio of OTP Life Annuity Ltd. simultaneous with regulatory changes, and the net loss from early repayment of FX mortgage loans in Hungary. Beside the Slovakian banking levy, the total amount of the special banking tax includes and the Slovakian Deposit Protection Fund contributions being introduced again in 2014, and the contribution into the Resolution Fund in Slovakia, too.

- Other non-interest income elements stemming from provisioning release in connection with provisions on loans originated before the acquisitions of the subsidiaries have been reclassified to and deducted from the volume of provisions for possible loan losses in the income statement.
- From 2Q 2014 OTP Bank's share in the change in the shareholders' equity of companies consolidated with equity method is reclassified from the After tax dividends and net cash transfers line to the Net other non-interest result (adj.) without one-offs line.
- Other non-interest income is shown together with gains/losses on real estate transactions, but without the above mentioned income from the release of pre-acquisition provisions and without received cash transfers. However other non-interest expenses stemming from non-financial activities are added to the adjusted net other non-interest income line, therefore the latter incorporates the net amount of other non-interest income from non-financial activities.
- Out of other expenses, other provisions are deducted and shown separately as other risk costs in the adjusted income statement. Other provisions contain provisioning on off-balance sheet liabilities and on legal contests, provisioning on securities, shares and other investments as well as provisioning on other assets.
- Other administrative expenses have been adjusted in the following way in order to create a category comprising administrative cost items exclusively. Other costs and expenses and other non-interest expenses were included into the adjusted Other non-interest expenses. At the same time, the following cost items were excluded from adjusted other non-interest expenses: paid cash transfers – except for movie subsidies and cash transfers to public benefit organisations –, Other non-interest expenses stemming from non-financial activities, Special tax on financial institutions and the one-timer payment compensating the underperformance of the financial transaction tax.
- From 4Q 2010 onwards, the fee expenses paid by Merkantil Group to car dealers ('dealer fees') were registered as interest expense in the accounting income statement. Earlier this item had been booked as fee expense. In order to create a comparable time series, since 4Q 2010 dealer fees have been reclassified from net interest income to net fees and commissions – both on the consolidated and on a standalone level.
- Within the aggregated income statement of Merkantil Bank and Car, other risk cost related to leasing companies – as investments of the Merkantil Group – is eliminated. The reason behind is that this provisioning is eliminated in the consolidated income statement of OTP Group, and only the net result of the leasing companies is making part of OTP Group's consolidated net earnings.
- Performing indicators such as cost/income ratio, net interest margin, risk cost to

average gross loans as well as ROA and ROE ratios are calculated on the basis of the adjusted profit and loss statement, excluding adjustment items such as received dividends and net cash transfers, goodwill write-offs, the tax shield effect of investment write-offs, special tax on financial institutions, the one-timer payment compensating the underperformance of the financial transaction tax in 2013, the fine imposed by the Hungarian Competition Authority and the risk cost created in relation to the decision of the Hungarian Competition Authority, the corporate tax impact of the transfer of general risk reserves to retained earnings, the effect of Banco Popolare Croatia acquisitions, the one-off impact of regulatory changes in relation to consumer contracts and the impact of the related methodological changes in Hungary, the expected one-off impact of regulatory changes related to CHF consumer contracts in Croatia, the one-off impact of regulatory changes related to FX consumer contracts in Serbia, the expected one-off impact of the CHF mortgage loan conversion programme in Romania, the risk cost created toward Crimean exposures from 2Q 2014, the risk cost related toward exposure to Donetsk and Luhansk from 3Q 2014, the revaluation of reverse mortgage portfolio of OTP Life Annuity Ltd. simultaneous with regulatory changes, and the net loss from early repayment of FX mortgage loans in Hungary.

- OTP Group is hedging the revaluation result of the FX provisions on its FX loans by keeping hedging open FX positions. In the accounting statement of recognized income, the revaluation of FX provisions is part of the risk costs (within line "Provision for loan losses") and Other provisions, whereas the revaluation result of the hedging open FX positions is made through other non-interest income (within line "Foreign exchange result, net"). The two items have the same absolute amount but an opposite sign. As an adjustment to the accounting statement of income, these items are eliminated from the adjusted P&L. By modifying only the structure of the income statement, this correction does not have any impact on the bottom line net profits.
- In 3Q 2012 and in 2Q 2013, seven subsidiaries of OTP Real Estate Ltd. were for the first time consolidated into OTP Group. The cumulated loss of the companies' previous operation was recognised as Other expenses in the accounting P&L, while loan loss and other provisioning earlier made by OTP Bank and OTP Real Estate in relation to these companies were released. By influencing only the structure of the income statement, the net effect of these two entries was neutral to consolidated net earnings. As an adjustment to the accounting statement of income, these items are eliminated from the adjusted P&L.
- Tax deductible transfers paid by Hungarian group members from 3Q 2012 were reclassified from Other non-interest expenses to Corporate income tax. As a result, the net P&L effect of the transfers (i.e. the paid transfer less the related tax allowances) is recognised in the corporate income tax line of the adjusted P&L.
- From 2012 credit institutions' contribution tax was recognised in the accounting P&L of OTP Group and OTP Core as OTP Core's burden share in the fixed exchange rate scheme provided to Hungarian FX mortgage debtors. The paid contribution tax equals 50% of the forgiveness provided on the interest payments of the clients. In the adjusted P&L the contribution tax is reclassified from other (administrative) expenses and to a lesser extent from other risk cost to net interest income.
- The financial transaction tax paid from the beginning of 2013 in Hungary is reclassified from other (administrative) expenses to net fee and commission income, both on consolidated and OTP Core level.
- Due to regulatory changes related to consumer contracts in Hungary the actual negative effects of the financial settlement with clients and the conversion of FX consumer contracts prescribed by regulatory changes related to consumer contracts in Hungary as well as the impact of the related methodological changes were recognized

within the accounting P&L in each quarters of 2015 on the net interest income, net fees and commissions, foreign exchange gains (net), net other non-interest result, other non-interest expenses, provision for loan losses, other risk cost and dividends and net cash transfers lines. These items booked in these periods were eliminated from all of the affected lines and were shown separately among adjustment items on consolidated level, whereas the estimate on the one-off negative impact of regulatory changes related to consumer contracts was booked on the other risk cost line in the accounting P&L.

- The revaluation result booked on Other provisions line due to regulatory changes related to FX mortgage loans in Hungary were moved to the Foreign exchange result line in 4Q 2014.
- Within the report, FX-adjusted statistics for business volume developments and their product breakdown are disclosed, too. For FX adjustment, the closing cross currency rates for the current period were used to calculate the HUF equivalent of loan and deposit volumes in the base periods. (In Hungary in case of FX mortgage loans converted into HUF in 1Q 2015 pursuant to the Act No. LXXVII of 2014 the fixed FX rates stipulated by the law were used for the FX adjustment.) Thus the FX-adjusted volumes will be different from those published earlier.

Adjustments on the consolidated statement of recognized income (IFRS):

	2015 HUF million	2016 HUF million
Net interest income	**550,430**	**519,729**
(–) Agent fees paid to car dealers by Merkantil Group	(2,084)	0
(+) Credit institutions' contribution tax paid in relation to the fixed exchange rate scheme	(232)	0
(+) Other risk costs recognised in relation to the fixed exchange rate scheme	0	0
(–) One-off impact of regulatory changes in relation to consumer contracts and the impact of the related methodological changes in Hungary	(697)	0
(–) Revaluation result of FX provisions		823
(+) Presentation of the revaluation result of intra-group swaps on the net interest income line realized at the Romanian and Slovakian operations		(440)
(+) Structural correction related to the amendment of interest income recognition methodology in Ukraine in 3Q 2016		3,484
Net interest income (adj.) with one-offs	**552,980**	**521,949**
(–) Revaluation result of FX swaps at OTP Core (booked within net interest income)	(679)	-
Net interest income (adj.) without one-offs	**553,659**	**521,949**

	2015 HUF million	2016 HUF million
Net profit from fees and commissions	**213,872**	**222,991**
(+) Agent fees paid to car dealers by Merkantil Group	(2,084)	0
(+) Financial Transaction Tax	(45,076)	(47,025)
(–) One-off impact of regulatory changes in relation to consumer contracts and the impact of the related methodological changes in Hungary	(539)	0
Net fees and commissions (adj.)	**167,250**	**175,966**

	2015 HUF million	2016 HUF million
Foreign exchange result	**116,682**	**36,142**
(–) Revaluation result of FX positions hedging the revaluation of FX provisions	96,814	16,804
(–) One-off impact of regulatory changes in relation to consumer contracts and the impact of the related methodological changes in Hungary	1,321	0
(–) Expected one-off impact of regulatory changes related to CHF consumer contracts in Croatia	70	0
(–) Presentation of the revaluation result of intra-group swaps on the net interest income line realized at the Romanian and Slovakian operations		(440)
(–) Gains and losses on derivative financial instruments		6,838
Foreign exchange result (adj.) with one-offs	**18,476**	**12,941**
Foreign exchange result (adj.) without one-offs	**18,476**	**12,941**

	2015 HUF million	2016 HUF million
Gain/loss on securities, net	**11,616**	**20,828**
(–) Gain on the sale of Visa Europe shares		15,924
Gain/loss on securities, net (adj.) with one-offs	**11,616**	**4,904**
(–) Revaluation result of the treasury share swap agreement (booked as Gain on securities, net (adj.) at OTP Core)	2,418	(751)
Gain/loss on securities, net (adj.) without one-offs	**9,197**	**5,655**

	2015 HUF million	2016 HUF million
Other operating income	**22,973**	**19,628**
(+) Gains and losses on derivative financial instruments		6,838
(–) Received cash transfers	9	37
(–) Non-interest income from the release of pre-acquisition provisions	1,518	735
(+) Other other non-interest expenses	(182,726)	(29,221)
(+) Change in shareholders' equity of companies consolidated with equity method	690	(163)
(–) Badwill booked in relation to acquisitions	1,845	0
(–) One-off impact of regulatory changes in relation to consumer contracts and the impact of the related methodological changes in Hungary	(170,420)	0
(–) One-off impact of regulatory changes related to FX consumer contracts in Serbia	(211)	0
(–) Adjustment of the one-off reclassification between Net other non-interest result and Other provisions in 4Q 2015	1,868	
(–) One-off impact of regulatory changes related to CHF consumer contracts in Croatia		(9,068)
(–) One-off impact of the CHF mortgage loan conversion programme and regulatory changes related to mortgage loans in Romania		(18,347)
(–) Impact of fines imposed by the Hungarian Competition Authority		3,922
Net other non-interest result (adj.) with one-offs	**6,329**	**19,803**
(–) Gain on the repurchase of own Upper and Lower Tier2 Capital (booked as Net other non-interest result (adj.) at OTP Core and at the Corporate Centre)	0	0
Net other non-interest result (adj.) without one-offs	**6,329**	**19,803**

	2015 HUF million	2016 HUF million
Provision for loan losses	**(318,683)**	**(93,472)**
(+) Non-interest income from the release of pre-acquisition provisions	1,518	735
(–) Revaluation result of FX provisions	(95,783)	(17,648)
(–) Risk cost created toward Crimean exposures from 2Q 2014 until 4Q 2015	(240)	0
(–) Risk cost created toward exposures to Donetsk and Luhansk from 3Q 2014 until 4Q 2015	(2,684)	0
(–) Expected one-off impact of regulatory changes related to CHF consumer contracts in Croatia	2,058	(574)
(–) One-off impact of regulatory changes in relation to consumer contracts and the impact of the related methodological changes in Hungary	(8,852)	0
(–) Expected one-off impact of the CHF mortgage loan conversion programme and regulatory changes related to mortgage loans in Romania		(4,776)
(+) Structural correction related to the amendment of interest income recognition methodology in Ukraine in 3Q 2016		(3,484)
Provision for loan losses (adj.)	**(211,663)**	**(73,223)**

	2015 HUF million	2016 HUF million
Dividend income	**3,345**	**3,054**
(+) Received cash transfers	9	37
(+) Paid cash transfers	(15,862)	(13,131)
(–) Sponsorships, subsidies and cash transfers to public benefit organisations	(15,473)	(13,130)
(–) Dividend income of swap counterparty shares kept under the treasury share swap agreement	2,433	2,841
(–) Change in shareholders' equity of companies consolidated with equity method	690	(163)
(–) One-off impact of regulatory changes in relation to consumer contracts and the impact of the related methodological changes in Hungary	(303)	0
After tax dividends and net cash transfers	**144**	**412**
Income taxes	**3,148**	**(33,944)**
(–) Corporate tax impact of goodwill/investment impairment charges	6,683	11,552
(–) Corporate tax impact of the special tax on financial institutions	6,609	3,120
(+) Tax deductible transfers	(12,200)	(9,565)
(–) Corporate tax impact of the effect of fines imposed by the Hungarian Competition Authority	151	0
(–) Corporate tax impact of the badwill booked in relation to acquisitions	(295)	0
(–) Corporate tax impact of the one-off effect of regulatory changes in relation to consumer contracts and the impact of the related methodological changes in Hungary	(4,173)	0
(–) Corporate tax impact of risk cost created toward Crimean exposures from 2Q 2014 until 4Q 2015	71	0
(–) Corporate tax impact of risk cost created toward exposures to Donetsk and Luhansk from 3Q 2014 until 4Q 2015	426	0
(–) Corporate tax impact of revaluation of reverse mortgage portfolio of OTP Life Annuity Ltd. simultaneous with regulatory changes	1,299	0
(–) Corporate tax impact of the expected one-off impact of regulatory changes related to CHF consumer contracts in Croatia	1,583	0
(–) Corporate tax impact of the expected one-off impact of the CHF mortgage loan conversion programme and regulatory changes related to mortgage loans in Romania	4,408	0
(–) Corporate tax impact of the gain on the sale of Visa Europe shares		(2,764)
(–) Corporate tax impact of switching to IFRS from HAR in Hungary		(5,766)
(–) Revaluation of deferred taxes recognized in the P&L due to the corporate tax rate cut in Hungary		(6,054)
Corporate income tax (adj.)	**(25,813)**	**(43,596)**
Other operating expense	**(74,680)**	**(36,461)**
(+) Release of provision/(Provision) on securities available-for-sale and held-to-maturity	**(15)**	**55**
(–) Other costs and expenses	(14,211)	(5,639)
(–) Other non-interest expenses	(198,588)	(42,351)
(–) One-off impact of regulatory changes in relation to consumer contracts and the impact of the related methodological changes in Hungary	197,569	0
(–) Revaluation of reverse mortgage portfolio of OTP Life Annuity Ltd. simultaneous with regulatory changes (booked within other risk cost)	(6,838)	0
(–) Revaluation result of FX provisions	(1,031)	22
(–) Expected one-off impact of regulatory changes related to CHF consumer contracts in Croatia	(10,042)	9,642
(–) Expected one-off impact of the CHF mortgage loan conversion programme and regulatory changes related to mortgage loans in Romania	(29,828)	23,123
(–) Impact of fines imposed by the Hungarian Competition Authority	(813)	(1,207)
(–) Adjustment of the one-off reclassification between Net other non-interest result and Other provisions in 4Q 2015	(1,868)	0
Other provisions (adj.)	**(9,046)**	**(19,995)**
Other administrative expenses	**(232,248)**	**(220,228)**
(+) Other costs and expenses	(14,211)	(5,639)
(+) Other non-interest expenses	(198,588)	(42,351)
(–) Paid cash transfers	(15,862)	(13,131)
(+) Film subsidies and cash transfers to public benefit organisations	(15,473)	(13,130)
(–) Other other non-interest expenses	(182,726)	(29,221)
(–) Special tax on financial institutions (recognised as other administrative expenses)	(35,992)	(17,069)
(–) Tax deductible transfers	(12,200)	(9,565)
(–) Credit institutions' contribution tax paid in relation to the fixed exchange rate scheme	(232)	0
(–) Financial Transaction Tax	(45,076)	(47,025)
(–) Impact of fines imposed by the Hungarian Competition Authority	0	(793)
(–) One-off impact of regulatory changes in relation to consumer contracts and the impact of the related methodological changes in Hungary	(9,312)	0
(–) Expected one-off impact of the CHF mortgage loan conversion programme and regulatory changes related to mortgage loans in Romania	(72)	0
Other non-interest expenses (adj.)	**(159,048)**	**(164,545)**

Statement of recognized income of OTP Bank Plc., according to hungarian accounting standards (unconsolidated, audited):

	2015 HUF million	2016 HUF million	Change %
Net interest income	**174,250**	**186,357**	**7**
Interest received and similar income	372,403	315,263	(15)
Interest paid and similar charges	(198,153)	(128,906)	(35)
Net fee and commission income	**160,090**	**161,991**	**1**
Commissions and fees received or due	187,617	191,893	2
Commissions and fees paid or payable	(27,527)	(29,902)	9
Other income	**468,758**	**242,440**	**(48)**
Income from securities	58,597	90,467	54
Net profit or net loss on financial operations	(12,308)	37,323	(403)
Other operating income	422,469	114,650	(73)
General administrative expenses	**(135,018)**	**(138,648)**	**3**
Depreciation	**(16,413)**	**(19,840)**	**21**
Other operating charges	**(526,752)**	**(142,993)**	**(73)**
Value adjustments in respect of loans and advances and risk provisions for contingent liabilities and for (future) commitments	**(52,827)**	**(29,161)**	**(45)**
Value readjustments in respect of loans and advances and risk provisions for contingent liabilities and for (future) commitments	**25,891**	**23,340**	**(10)**
Difference between formation and utilization of general risk provisions	**0**	**0**	
Value adjustments in respect of transferable debt securities held as financial fixed assets, shares and participations in affiliated companies and in other companies linked by virtue of participating interests	**(39,373)**	**(104,017)**	**164**
Value readjustments in respect of transferable debt securities held as financial fixed assets, shares and participations in affiliated companies and in other companies linked by virtue of participating interests	**81**	**44,219**	**54,491**
Profit or loss on ordinary activities	**58,687**	**223,688**	**281**
Extraordinary profit or loss	(155,910)	(10,496)	(93)
Profit or loss before tax	**(97,223)**	**213,192**	**(319)**
Taxes on income	(871)	(11,551)	1,226
Profit or loss after tax	**(98,094)**	**201,641**	**(306)**
General reserve	98,094	(20,164)	(121)
Profit or loss for the financial year	**0**	**181,477**	

Balance sheet of OTP Bank Plc., according to hungarian accounting standards (unconsolidated, audited):

	2015 HUF million	2016 HUF million	Change %
Total assets	**6,883,826**	**7,109,622**	**3**
1. Liquid assets	1,324,505	928,617	(30)
2. Treasury bills and similar securities	1,577,974	1,891,155	20
3. Loans and advances to credit institutions	663,431	932,678	41
4. Loans and advances to customers	**1,693,195**	**1,938,777**	**15**
5. Debt securities, including fixed-income securities	674,896	457,916	(32)
6. Shares and other variable-yield securities	129,853	128,230	(1)
7. Shares and participations in corporations held as financial fixed assets	584	2,432	316
8. Shares and participating interests in affiliated companies	490,984	583,007	19
9. Intangible assets	65,365	22,954	(65)
10. Tangible assets	65,734	64,628	(2)
11. Own shares	9,168	8,870	(3)
12. Other assets	79,616	41,394	(48)
13. Prepayments and accrued income	108,521	108,964	0
Total liabilities	**6,883,826**	**7,109,622**	**3**
1. Amounts owed to credit institutions	837,020	658,491	(21)
2. Amounts owed to customers	**4,366,507**	**4,830,024**	**11**
3. Debts evidenced by certificates	187,569	151,603	(19)
4. Other liabilities	54,849	65,474	19
5. Accruals and deferred income	81,146	90,518	12
6. Provisions for liabilities and charges	88,465	47,661	(46)
7. Subordinated liabilities	313,120	155,510	(50)
8. Shareholders' equity	955,150	1,110,341	16
Performance Indicators	**2015**	**2016**	**pps**
Loans and advances to customers/amounts owed to customers	39%	40%	1

Statement of recognized income of OTP Bank Plc., according to IFRS standards (consolidated, audited, accounting structure):

	2016 HUF million	2015 HUF million	Change %
Loans	510,449	575,619	(11)
Placements with other banks	74,588	114,024	(35)
Amounts due from banks and balances with the National Banks	9,866	27,495	(64)
Securities held for trading	0	0	
Securities available-for-sale	34,557	31,063	11
Securities held-to-maturity	51,427	46,619	10
Other	8,804	7,607	16
Total interest income	689,691	802,428	(14)
Amounts due to banks, the Hungarian Government, deposits from the National Banks and other banks	(75,925)	(116,713)	(35)
Deposits from customers	(72,554)	(108,023)	(33)
Liabilities from issued securities	(4,726)	(6,786)	(30)
Subordinated bonds and loans	(10,239)	(13,633)	(25)
Other	(6,518)	(6,844)	(5)
Total interest expense	(169,962)	(251,998)	(33)
NET INTEREST INCOME	**519,729**	**550,430**	**(6)**
Provision for impairment on loans and placement losses	(93,473)	(318,683)	(71)
NET INRETEST INCOME AFTER PROVISION FOR IMPAIRMENT ON LOAN AND PLACEMENT LOSSES	**426,256**	**231,747**	**84**
Income from fees and commissions	272,235	257,431	6
Expense from fees and commissions	(49,244)	(43,559)	13
NET PROFIT FROM FEES AND COMMISSIONS	222,991	213,872	4
Foreign exchange gains, net	36,142	116,682	(69)
Gains on securities, net	20,828	11,616	79
Dividend income	3,054	3,345	(9)
Release of provision/Provision on securities available-for-sale	55	(15)	
Other operating income	19,628	22,973	(15)
Other operating expense	(36,461)	(74,680)	(51)
from this: release of provision on contingent liabilities due to regulations related to customer loans	-	196,574	
NET OPERATING GAIN	43,246	79,922	(46)
Personnel expenses	(191,442)	(187,806)	2
Depreciation and amortization	(44,427)	(45,463)	(2)
Other administrative expenses	(220,229)	(232,248)	(5)
OTHER ADMINISTRATIVE EXPENSES	(456,098)	(465,517)	(2)
PROFIT BEFORE INCOME TAX	**236,395**	**60,024**	**294**
Income tax	(33,943)	3,148	
NET PROFIT FOR THE YEAR	**202,452**	**63,171**	**220**
From this, attributable to: non-controlling interest	(242)	412	(159)
Owners of the company	**202,210**	**63,583**	**218**

Balance sheet of OTP Bank Plc., according to IFRS standards (consolidated, audited):

	2016 HUF million	2015 HUF million	Change %
Cash, amounts due from banks and balances with the National Banks	1,625,357	1,878,960	(13)
Placements with other banks, net of allowance for placement losses	363,530	300,568	21
Financial assets at fair value through profit or loss	293,106	253,782	15
Securities available-for-sale	1,527,093	1,305,486	17
Loans, net of allowance for loan losses	5,736,232	5,409,967	6
Associates and other investments	9,836	10,028	(2)
Securities held-to-maturity	1,114,227	926,677	20
Property and equipment	193,485	193,661	0
Intangible assets	162,031	155,809	4
Investment property, investment property subject to operating lease	29,446	30,319	(3)
Other assets	253,322	253,591	0
TOTAL ASSETS	**11,307,665**	**10,718,848**	**5**
Amounts due to banks and Hungarian Government, deposits from the National Banks and other banks	543,775	533,310	2
Deposits from customers	8,540,583	7,984,579	7
Liabilities from issued securities	146,900	239,376	(39)
Financial liabilities at fair value through profit or loss	75,871	101,561	(25)
Other liabilities	502,429	391,579	28
Subordinated bonds and loans	77,458	234,784	(67)
TOTAL LIABILITIES	**9,887,015**	**9,485,189**	**4**
Share capital	28,000	28,000	0
Retained earnings and reserves	1,449,478	1,261,029	15
Treasury shares	(60,121)	(58,021)	4
Non-controlling interest	3,292	2,651	24
TOTAL SHAREHOLDERS' EQUITY	**1,420,649**	**1,233,659**	**15**
TOTAL LIABILTITIES AND SHAREHOLDERS' EQUITY	**11,307,665**	**10,718,848**	**5**

OTP Bank
Annual Report
2016

Financial Statements

Deloitte.

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Company Registration Number: 01-09-071057

INDEPENDENT AUDITORS' REPORT

To the shareholders and Board of Directors of OTP Bank Plc.

Opinion

We have audited the consolidated financial statements of OTP Bank Plc. (the "Bank") and its subsidiaries (together the "Group") for the year 2016 which comprise the consolidated statement of financial position as at December 31, 2016 – which shows total assets of HUF 11,307,665 million – and the related consolidated statement of recognized income, consolidated statement of comprehensive income – which shows a net profit for the year of HUF 202,452 million –, the consolidated statement of changes in equity and the consolidated statement of cash-flows for the year then ended, and the notes to the consolidated financial statements including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the financial position of OTP Bank Plc. and its subsidiaries as at December 31, 2016, and its financial performance and its cash-flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Basis for the opinion

We conducted our audit in accordance with the Hungarian National Standards on Auditing and the effective Hungarian laws and other regulations on audits. Our responsibilities under these standards are further described in the "*The auditor's responsibilities for the audit of the consolidated financial statements*" section of our report.

We are independent of the Group in compliance with the Hungarian ethical requirements pertaining to our audit of the consolidated financial statements, and we have fulfilled our other ethical responsibilities in accordance with the same ethical requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the matter
Impairment of loan receivables	
(See notes 8., 24., and 28.1. of the notes to the consolidated financial statements for the details) The net value of loans to customers in an amount of HUF 5,736,232 million comprise 50.7% of the consolidated total assets (gross book value of HUF 6,639,754 million), the relevant impairment charge recorded in the current year was HUF 93,473 million. The determination of impairment of loans requires application of professional judgement and use of subjective assumptions by management in case of both the application of portfolio based collective impairment models, and determination of individual specific impairment of loans. The most significant assumptions applied in provisioning calculation are the following: - valuation of collaterals, - estimated time to realize collaterals, - probability of default, - estimation of future cash-flows expected to be realized. Based on the significance of the above described circumstances the calculation of impairment of loan receivables was considered as a key audit matter.	The relevant audit procedures performed by us included the following: - evaluating internal controls relating to monitoring of loans and calculating and recording of impairment, - sample based testing of specific loan impairments, including the review of consideration and valuation of collaterals and estimations of expected future cash-flows, - assessing the appropriateness of collective provisioning models, and review of the assumptions and management estimates applied and parameters, including comparison with historical data, and recalculation of impairment charge with the involvement of our experts.

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Key audit matter	How our audit addressed the matter
Valuation of goodwill	
(See notes 11. and 32. of the notes to the consolidated financial statements for the details) The Bank performed several acquisitions in prior years, and as a result of these acquisitions a net amount of HUF 104,282 million goodwill is presented in the consolidated statement of financial position. As required by the applicable accounting standards, management conducts regular impairment tests (at least annually) to assess whether there is a need to record impairment with respect to the goodwill. The Bank applies the DCF (discounted cash-flow) and the EVA (economic value added) methods to determine the recoverable amounts in the impairment tests. These methods are based on several material assumptions and the professional judgement of management (e.g. discount rates applied, growth rates, cost levels, future risk costs, fx rates, etc). Accordingly, the valuation of goodwill is considered to be a key audit matter.	In our audit procedures on the impairment test of goodwill we focused on the assessing of the appropriateness of the assumptions applied by management. We reviewed the valuation models applied by management together with the applied assumptions with the involvement of our valuation experts. We examined whether the plans are in accordance with historical results, and performed sensitivity analysis on the key parameters of the models when needed. We also audited the appropriate application of the relevant accounting standards, the related journal entries and disclosures.

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Key audit matter	How our audit addressed the matter
Valuation of complex financial instruments (including derivatives) and application of hedge accounting	
(See note 41. of the notes to the consolidated financial statements for the details) The Group has several complex financial instruments (including derivatives) of which valuation is based on complex models, and the valuation also involves significant management estimates. The input data used in the valuation models are based on market prices and also other market based and non-market based information. The most significant input data applied by the Group in its fair valuation models are the estimations of forward rates and estimation of yield curves using financial-mathematical models, which inputs are used by the Group to value derivatives and complex derivatives to manage market risks (foreign exchange risks, interest rate risks, etc.). The recognition and valuation of transactions under hedge accounting in accordance with the Group's risk management strategy, together with the required assessment of hedge effectiveness is also an area of high complexity. Based on the significance of the above described circumstances the valuation of financial instruments and the hedge accounting were considered as a key audit matter.	We tested the operating effectiveness of the key internal controls implemented by the Group relating to fair value measurement of financial instruments. We analyzed the appropriateness of the valuation models applied by the Group, tested the accuracy of input data and the applied assumptions including any management estimates and financial-mathematical models. We tested the fair value measurement of the financial instruments on a sample basis, and examined whether their accounting is in line with the applicable accounting standards. We reviewed the hedge documentation (which includes the risk management strategy) of the transactions involved in hedge accounting, together with the assessment of hedge effectiveness and their accounting treatment, whether it is in line with the applicable accounting standards. We also examined whether the disclosures relating to financial instruments are appropriate.

Other information

Other information comprises the information included in the sections called "Management's Analysis" and "Corporate Governance" of the annual report and the consolidated business report of OTP Bank Plc. and its subsidiaries for 2016 which we obtained prior to the date of this auditors' report and the sections called "Message to the shareholders" and "Macroeconomic and financial environment in 2016" of the annual report which are expected to be made available to us after that date, but does not include the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information and for the preparation of the consolidated business report in accordance with the relevant provisions of the Act C of 2000 on Accounting (the "Accounting Act") and other regulations. Our opinion on the consolidated financial statements provided in the section of our report entitled "Opinion" does not apply to the other information.

Our responsibility in connection with our audit of the consolidated financial statements is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Furthermore, in accordance with the Accounting Act, our responsibilities regarding the consolidated business report also include reviewing the consolidated business report to assess whether the consolidated business report was prepared in accordance with the relevant provisions of the Accounting Act and other regulations, if any, including the assessment whether the consolidated business report complies with the requirements of Section 95/B (2) e) and f) of the Accounting Act. Furthermore, in accordance with the Accounting Act we shall make a statement whether the information referred to in Section 95/B (2) a)-d), g) and h) has been provided in the consolidated business report.

In our opinion, the consolidated business report of OTP Bank Plc. and its subsidiaries for 2016 corresponds to the consolidated financial statements of OTP Bank Plc. and its subsidiaries for 2016 and the consolidated business report was prepared in accordance with the provisions of the Accounting Act. The information referred to in Section 95/B (2) a)-d), g) and h) of the Accounting Act has been provided.

As the Group is not subject to additional requirements under any other regulation in connection with the consolidated business report, our opinion on the consolidated business report does not include an opinion under Section 156 (5) h) of the Accounting Act.

In addition to the above, based on the information obtained about the Group and its environment, we must report on whether we became aware of any material misstatements in the other information that we obtained prior to the date of this auditor's report and, if so, on the nature of such material misstatements. We have nothing to report in this regard.

When we read the sections of the annual report that were not yet made available to us until the date of this report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

The auditor's responsibilities for the audit of the consolidated financial statements

Our objectives during the audit are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue, on the basis of the above, an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Hungarian National Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error, and they are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with the Hungarian National Standards on Auditing, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify the opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in the Group's internal control that we identify during the audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partners on the audit resulting in this independent auditor's report are the signatories of the report.

Budapest, March 16, 2017

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1068 Budapest, Dózsa György út 84/C.
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....
dr. Hruby Attila
Statutory registered auditor
Registration number: 007118

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Statement of financial position

(consolidated, based on IFRS, as at 31 December 2016, in HUF million)

	Note	2016	2015
Cash, amounts due from banks and balances with the National Banks	4	1,625,357	1,878,960
Placements with other banks, net of allowance for placement losses	5	363,530	300,568
Financial assets at fair value through profit or loss	6	293,106	253,782
Securities available-for-sale	7	1,527,093	1,305,486
Loans, net of allowance for loan losses	8	5,736,232	5,409,967
Associates and other investments	9	9,836	10,028
Securities held-to-maturity	10	1,114,227	926,677
Property and equipment	11	193,485	193,661
Intangible assets	11	162,031	155,809
Investment property, investment property subject to operating lease	12	29,446	30,319
Other assets	13	253,322	253,591
TOTAL ASSETS		**11,307,665**	**10,718,848**
Amounts due to banks, the Hungarian Government, deposits from the National Banks and other banks	14	543,775	533,310
Deposits from customers	15	8,540,583	7,984,579
Liabilities from issued securities	16	146,900	239,376
Financial liabilities at fair value through profit or loss	17	75,871	101,561
Other liabilities	18	502,429	391,579
Subordinated bonds and loans	19	77,458	234,784
TOTAL LIABILITIES		**9,887,016**	**9,485,189**
Share capital	20	28,000	28,000
Retained earnings and reserves		1,449,478	1,261,029
Treasury shares	22	(60,121)	(58,021)
Non-controlling interest	23	3,292	2,651
TOTAL SHAREHOLDERS' EQUITY		**1,420,649**	**1,233,659**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**11,307,665**	**10,718,848**

Budapest, 16 March 2017

The accompanying notes to consolidated fi nancial statements on pages 100 to 183 form an integral part of these Consolidated Financial Statements prepared in accordance with International Financial Reporting Standards.

Statement of recognized income

(consolidated, based on IFRS, for the year ended 31 December 2016, in HUF million)

	Note	2016	2015
Interest Income			
Loans		510,449	575,619
Placements with other banks		74,588	114,025
Securities available-for-sale		34,557	31,063
Securities held-to-maturity		51,427	46,619
Amounts due from banks and balances with the National Banks		9,866	27,496
Other		8,804	7,606
Total Interest Income		689,691	802,428
Interest Expense			
Amounts due to banks, the Hungarian Government, deposits from the National Banks and other banks		75,925	116,713
Deposits from customers		72,554	108,023
Liabilities from issued securities		4,726	6,786
Subordinated bonds and loans		10,239	13,633
Other		6,518	6,843
Total Interest Expense		**169,962**	**251,998**
NET INTEREST INCOME		**519,729**	**550,430**
Provision for impairment on loan and placement losses	5, 8, 24	93,473	318,683
NET INTEREST INCOME AFTER PROVISION FOR IMPAIRMENT ON LOAN AND PLACEMENT LOSSES		**426,256**	**231,747**
Income from fees and commissions	25	272,235	257,431
Expense from fees and commissions	25	49,244	43,559
Net profit from fees and commissions		**222,991**	**213,872**
Foreign exchange gains, net		36,142	116,682
Gains on securities, net		20,828	11,616
Dividend income		3,054	3,345
Release of provision/(Provision) on securities available-for-sale		55	(15)
Other operating income	26	19,628	22,973
Other operating expense	26	(36,461)	(74,680)
from this: release of provision on contingent liabilities due to regulations related to customer loans	26	–	196,574
Net operating gain		**43,246**	**79,921**
Personnel expenses	26	191,442	187,806
Depreciation and amortization	11	44,427	45,463
Goodwill impairment	11	–	–
Other administrative expenses	26	220,229	232,247
Other administrative expenses		**456,098**	**465,516**
PROFIT BEFORE INCOME TAX		**236,395**	**60,024**
Income tax (expense)/benefit	27	(33,943)	3,147
NET PROFIT FOR THE YEAR		**202,452**	**63,171**
From this, attributable to:			
Non-controlling interest		**242**	**(412)**
Owners of the company		**202,210**	**63,583**
Consolidated earnings per share (in HUF)			
Basic	**39**	**765**	**242**
Diluted	**39**	**765**	**242**

Statement of comprehensive income

(consolidated, based on IFRS, for the year ended 31 December 2016, in HUF million)

	2016	2015
NET PROFIT FOR THE YEAR	**202,452**	**63,171**
Items that may be reclassified subsequently to profit or loss:		
Fair value adjustment of securities available-for-sale	11,248	(880)
Deferred tax related to securities available-for-sale	(1,665)	633
Effect of tax rate-modification related to securities available-for-sale	2,241	–
Net investment hedge in foreign operations	525	431
Foreign currency translation difference	24,554	(44,301)
Change of actuarial losses related to employee benefits	61	(170)
NET COMPREHENSIVE INCOME	**239,416**	**18,884**
From this, attributable to:		
Non-controlling interest	641	(698)
Owners of the company	238,775	19,582

The accompanying notes to consolidated fi nancial statements on pages 100 to 183 form an integral part of these Consolidated Financial Statements prepared in accordance with International Financial Reporting Standards.

Statement of cash-flows

(consolidated, based on IFRS, for the year ended 31 December 2016, in HUF million)

OPERATING ACTIVITIES	Note	2016	2015
Profit before income tax		**236,395**	**60,024**
Dividend income		(3,054)	(3,345)
Depreciation and amortization	11	44,427	45,463
(Release of provision)/Provision for impairment on securities	7, 10	(55)	15
Provision for impairment on loan and placement losses	5, 8, 24	93,473	318,683
Provision for impairment on investments	9	687	1,094
Provision for impairment on investment properties and on investment properties subject to operating leases	12	833	490
Provision for impairment on other assets	13	2,218	6,657
Release of provision for impairment on off-balance sheet commitments and contingent liabilities	18	(15,268)	(146,360)
Share-based payment	2, 30	3,530	3,810
Change of actuarial gains/(losses) related to employee benefits		61	(171)
Unrealized losses on fair value change of securities held for trading		(9,969)	(12,098)
Unrealized gains on fair value change of derivative financial instruments		14,762	7,793
Net changes in assets and liabilities in operating activities			
Changes in financial assets at fair value through profit or loss		(72,891)	(5,238)
Net (increase)/decrease in loans, net of allowance for loan losses		(412,425)	40,677
Increase in other assets before provisions for impairment		(30,555)	(1,331)
Net increase in deposits from customers		556,004	311,102
Increase in other liabilities		132,104	24,613
Net increase in compulsory reserves at the National Banks		(45,079)	(147,360)
Income tax paid		(19,922)	(14,676)
Net Cash Provided by Operating Activities		**475,276**	**489,842**
Interest received		702,276	803,868
Interest paid		(158,181)	(242,622)
INVESTING ACTIVITIES			
Net increase in placement with other banks before allowance for placements losses		(62,830)	(19,556)
Purchase of securities available-for-sale		(814,918)	(842,886)
Proceeds from sale of securities available-for-sale		613,661	373,078
Net (increase)/decrease in investments in associates		(467)	11,832
Net (increase)/decrease in investments in other companies		(191)	427
Dividends received		3,217	3,345
Purchase of securities held-to-maturity		(877,412)	(1,036,805)
Decrease in securities held-to-maturity		692,831	822,634
Purchase of property, equipment and intangible assets		(71,575)	(50,376)
Proceeds from disposals to property, equipment and intangible assets		19,537	21,107
Decrease/(Increase) in investment properties and in investment properties subject to operating lease before provision for impairment		40	(294)
Net (increase)/decrease in advances for investments included in other assets		(3)	28
Net Cash Used in Investing Activities		**(498,110)**	**(717,466)**
FINANCING ACTIVITIES			
Net increase/(decrease) in amounts due to banks, the Hungarian Government, deposits from the National Banks and other banks		10,465	(174,964)
Cash received from issuance of securities		27,539	60,944
Cash used for redemption of issued securities		(120,015)	(88,652)
Decrease in subordinated bonds and loans		(157,326)	(47,184)
Increase/(Decrease) in non-controlling interest		640	(698)
Payments to ICES holders	21	(9,135)	(3,928)
Purchase of Treasury shares		9,881	24,641
Sales of Treasury shares		(15,897)	(34,093)
Dividends paid		(46,152)	(40,473)
Net Cash Used in Financing Activities		**(300,000)**	**(304,407)**
Net decrease in cash and cash equivalents		**(322,834)**	**(532,031)**
Cash and cash equivalents at the beginning of the period		**1,427,292**	**2,003,324**
Foreign currency translation		24,152	(44,001)
Cash and cash equivalents at the end of the period		**1,128,610**	**1,427,292**
Analysis of cash and cash equivalents			
Cash, amounts due from banks and balances with the National Banks		1,874,306	2,310,313
Net cash inflow/(outflow) due to acquisition		4,654	(2,681)
Compulsory reserve established by the National Banks		(451,668)	(304,308)
Cash and cash equivalents at the beginning of the period		**1,427,292**	**2,003,324**
Cash, amounts due from banks and balances with the National Banks	4	1,625,357	1,874,306
Net cash inflow due to acquisition	32	–	4,654
Compulsory reserve established by the National Banks	4	(496,747)	(451,668)
Cash and cash equivalents at the end of the period		**1,128,610**	**1,427,292**

The accompanying notes to consolidated fi nancial statements on pages 100 to 183 form an integral part of these Consolidated Financial Statements prepared in accordance with International Financial Reporting Standards.

Statement of changes in shareholders' equity

(consolidated, based on IFRS, for the year ended 31 December 2016, in HUF million)

	Note	Share capital	Capital reserve	Share-based payment reserve	Retained earnings and reserves	Put option reserve*	Treasury shares	Non-controlling interest	Total
Balance as at 1 January 2015		**28,000**	**52**	**20,897**	**1,323,277**	**(55,468)**	**(55,941)**	**3,349**	**1,264,166**
Net profit for the year		–	–	–	63,583	–	–	(412)	63,171
Other Comprehensive Income		–	–	–	(44,001)	–	–	(286)	(44,287)
Share-based payment	30	–	–	3,810	–	–	–	–	3,810
Dividend for the year 2014		–	–	–	(40,600)	–	–	–	(40,600)
Sale of Treasury shares	22	–	–	–	–	–	24,641	–	24,641
Treasury shares									
– loss on sale		–	–	–	(7,372)	–	–	–	(7,372)
– acquisition	22	–	–	–	–	–	(26,721)	–	(26,721)
Payments to ICES holders	21	–	–	–	(3,149)	–	–	–	(3,149)
Balance as at 31 December 2015		**28,000**	**52**	**24,707**	**1,291,738**	**(55,468)**	**(58,021)**	**2,651**	**1,233,659**
Net profit for the year		–	–	–	202,210	–	–	242	202,452
Other Comprehensive Income		–	–	–	36,565	–	–	399	36,964
Share-based payment	30	–	–	3,530	–	–	–	–	3,530
Dividend for the year 2015		–	–	–	(46,200)	–	–	–	(46,200)
Sale of Treasury shares	22	–	–	–	–	–	9,882	–	9,882
Treasury shares									
– loss on sale		–	–	–	(3,915)	–	–	–	(3,915)
– acquisition	22	–	–	–	–	–	(11,982)	–	(11,982)
Payments to ICES holders	21	–	–	–	(3,741)	–	–	–	(3,741)
Balance as at 31 December 2016		**28,000**	**52**	**28,237**	**1,476,657**	**(55,468)**	**(60,121)**	**3,292**	**1,420,649**

The accompanying notes to consolidated fi nancial statements on pages 100 to 183 form an integral part of these Consolidated Financial Statements prepared in accordance with International Financial Reporting Standards.

* See Note 18.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

NOTE 1: ORGANIZATION AND BASIS OF CONSOLIDATED FINANCIAL STATEMENTS

1.1 General information

OTP Bank Plc. (the "Bank" or "OTP") was established on 31 December 1990, when the previously State-owned company was transformed into a public liability company.

The Bank's registered office address is 16 Nádor Street, Budapest 1051.

In 1995, the shares of the Bank were listed on the Budapest and the Luxembourg Stock Exchanges and were also listed on the SEAQ board on the London Stock Exchange and PORTAL in the USA.

These Consolidated Financial Statements were approved by the Board of Directors and authorised for issue on 17 March 2017.

	2016	2015
The structure of the Share capital by shareholders:		
Domestic and foreign private and institutional investors	97%	97%
Employees	2%	2%
Treasury shares	1%	1%
Total	**100%**	**100%**

The Bank and its subsidiaries ("Entities of the Group", together the "Group") provide a full range of commercial banking services through a wide network of 1,302 branches. The Group has operations in Hungary, Bulgaria, Russia, Ukraine, Croatia, Romania, Slovakia, Serbia and Montenegro.

	2016	2015
The number of employees at the Group:		
The number of employees at the Group	38,575	38,203
The average number of employees at the Group	37,782	38,114

1.2 Base of Accounting

The Entities of the Group maintain their accounting records and prepare its statutory accounts in accordance with the commercial, banking and fiscal regulations prevailing in Hungary and in case of foreign subsidiaries in accordance with the local commercial, banking and fiscal regulations.

The Group's presentation currency is the Hungarian Forint ("HUF").

Due to the fact that the Bank is listed on international and national stock exchanges, the Bank is obliged to present its financial position in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union (the "EU").

Certain adjustments have been made to the Entities' statutory accounts in order to present the Consolidated Financial Position and Statement of Recognized and Comprehensive Income of the Bank in accordance with all standards and interpretations approved by the International Accounting Standards Board ("IASB").

The Consolidated Financial Statements have been prepared in accordance with IFRS as adopted by the EU. IFRS as adopted by the EU do not currently differ from IFRS as issued by the IASB, except for portfolio hedge accounting under IAS 39 Financial Instruments: Recognition and Measurement ("IAS 39") which has not been approved by the EU. As the Group does not apply portfolio hedge accounting under IAS 39, there would be no impact on these Consolidated Financial Statements, had it been approved by the EU before the preparation of these financial statement.

1.2.1 The effect of adopting new and revised International Financial Reporting Standards effective from 1 January 2016

The following standards, amendments to the existing standards and interpretations issued by the IASB and adopted by the EU are effective for the current period:

- Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 12 "Disclosure of Interests in Other Entities" and IAS 28 "Investments in Associates and Joint Ventures" – Investment Entities: Applying the Consolidation Exception – adopted by the EU on 22 September 2016 (effective for annual periods beginning on or after 1 January 2016),
- Amendments to IFRS 11 "Joint Arrangements" – Accounting for Acquisitions of Interests in Joint Operations – adopted by the EU on 24 November 2015 (effective for annual periods beginning on or after 1 January 2016),
- Amendments to IAS 1 "Presentation of Financial Statements" – Disclosure Initiative – adopted by the EU on 18 December 2015 (effective for annual periods beginning on or after 1 January 2016),
- Amendments to IAS 16 "Property, Plant and Equipment" and IAS 38 "Intangible Assets" – Clarification of Acceptable Methods of Depreciation and Amortisation – adopted by the EU on 2 December 2015 (effective for annual periods beginning on or after 1 January 2016),
- Amendments to IAS 16 "Property, Plant and Equipment" and IAS 41 "Agriculture" – Bearer Plants – adopted by the EU on 23 November 2015 (effective for annual periods beginning on or after 1 January 2016),
- Amendments to IAS 19 "Employee Benefits" – Defined Benefit Plans: Employee Contributions – adopted by the EU on 17 December 2014 (effective for annual periods beginning on or after 1 February 2015),
- Amendments to IAS 27 "Separate Financial Statements" – Equity Method in Separate Financial Statements – adopted by the EU on 18 December 2015 (effective for annual periods beginning on or after 1 January 2016),
- Amendments to various standards "Improvements to IFRSs (cycle 2010–2012)" resulting from the annual improvement project of IFRS (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38) primarily with a view to removing inconsistencies and clarifying wording – adopted by the EU on 17 December 2014 (amendments are to be applied for annual periods beginning on or after 1 February 2015),
- Amendments to various standards "Improvements to IFRSs (cycle 2012–2014)" resulting from the annual improvement project of IFRS (IFRS 5, IFRS 7, IAS 19 and IAS 34) primarily with a view to removing inconsistencies and clarifying wording – adopted by the EU on 15 December 2015 (amendments are to be applied for annual periods beginning on or after 1 January 2016).

The adoption of these amendments to the existing standards and interpretations has not led to any material changes in the Group's financial statements.

1.2.2 New and revised Standards and Interpretations issued by IASB and adopted by the EU but not yet effective

At the date of authorization of these financial statements the following standards, amendments to the existing standards and interpretations issued by IASB and adopted by the EU which were in issue but not yet effective:

- IFRS 9 "Financial Instruments" – adopted by the EU on 22 November 2016 (effective for annual periods beginning on or after 1 January 2018),
- IFRS 15 "Revenue from Contracts with Customers" and amendments to IFRS 15 "Effective date of IFRS 15" – adopted by the EU on 22 September 2016 (effective for annual periods beginning on or after 1 January 2018).

The implementation of IFRS 15 would have no significant impact on the Group's financial statements.
The application of IFRS 9 might have significant impact on the Group's financial statement, the Group analysed the impact after the adoption of the standard by EU.

IFRS 9 "Financial Instruments" is a replacement for IAS 39 "Financial Instruments: Recognition and Measurement" contains requirements relating to the recognition and measurement, impairment, derecognition and hedge accounting in general.

The Group started its preparation for IFRS 9 during 2016 led by the Bank's Risk Management and Finance Divisions. The preparations cover the key challenges that the Bank faces with the new standard.
The identification of gaps between its currently used methodologies and the IFRS 9 requirements in classification and measurement, impairment and hedge accounting was completed.

Classification and measurement

IFRS 9 introduces a new approach for the classification of financial assets driven by cash flow characteristics and the business model in which an asset is held. This single, principle-based approach replaces existing rule-based requirements. The Bank recognizes the financial liabilities on amortized cost except in those cases when the standard requires otherwise, like derivative financial instruments which are recognized on fair value through profit or loss. Preliminary analyses of the business models and contractual cash flows on the Group's significant portfolios have been performed to determine products and financial instruments that will be measured at amortised cost, at fair value through profit or loss or at fair value through other comprehensive income.

Hedge accounting

IFRS 9 introduces a substantially reformed model for hedge accounting, with enhanced disclosures about risk management activity. The new model aligns accounting treatment with risk management activities, enabling entities to better reflect these activities in their financial statements. In addition, users of the financial statements will be provided with better information about risk management and the effect of hedge accounting on the financial statements.

Impairment

IFRS 9 introduces a new, expected-loss impairment model that requires a more timely recognition of credit losses. The standard requires entities to account for expected credit losses from the moment when financial instruments are first identified.
The use of a new, three stage model is being implemented for IFRS 9 purposes. The new impairment methodology is going to be used to classify financial instruments in order to determine whether credit risk has significantly increased since initial recognition and able to identify credit-impaired assets. For instruments with credit-impairment or significant increase of credit risk lifetime expected losses are going to be recognized. Assets where no significant increase of credit risk is identified will remain to be provisioned based on a 12-month expected loss methodology.

For purchased or originated credit-impaired financial assets the same lifetime expected loss methodology will be extended in order to be able to capture the cumulative changes in lifetime expected credit losses since the initial recognition as a credit-impaired instrument.

The Group is considering the use of a simplified impairment approach for trade receivables, contract assets and lease receivables.

The Group has started to further improve its risk management definitions, processes and methodological analysis in line with the expectations of IFRS 9. The Bank has started developing the methodology for the identification of significant increase of credit risk and the calculation of expected credit losses through the use IFRS 9 compliant risk parameters.

Based on the gap analyses and the changes in methodology the main principles regarding the IT solutions for IFRS 9 implementation have been laid down. Preliminary specifications have been completed and IT implementation is set to be completed in 2017.

The quantitative impact of IFRS 9 is going to be determined in the course of 2017 when all the details of the classification and measurement and impairment methodologies become finalized.

1.2.3 Standards and Interpretations issued by IASB, but not yet adopted by the EU

- IFRS 14 "Regulatory Deferral Accounts" (effective for annual periods beginning on or after 1 January 2016) – the European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard,
- IFRS 16 "Leases" (effective for annual periods beginning on or after 1 January 2019),
- Amendments to IFRS 2 "Share-based Payment" – Classification and Measurement of Share-based Payment Transactions (effective for annual periods beginning on or after 1 January 2018),
- Amendments to IFRS 4 "Insurance contracts" – Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (effective for annual periods beginning on or after 1 January 2018, or when IFRS 9 "Financial Instruments" is applied first time),
- Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures" – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date was deferred indefinitely until the research project on the equity method has been concluded),
- Amendments to IFRS 15 "Revenue from Contracts with Customers" – Clarifications to IFRS 15 Revenue from Contracts with Customers (effective for annual periods beginning on or after 1 January 2018),
- Amendments to IAS 7 "Statement of Cash Flows" – Disclosure Initiative (effective for annual periods beginning on or after 1 January 2017),
- Amendments to IAS 12 "Income Taxes" – Recognition of Deferred Tax Assets for Unrealised Losses (effective for annual periods beginning on or after 1 January 2017),
- Amendments to IAS 40 "Investment property" – Transfers of Investment Property (issued on 8 December 2016, effective for annual periods beginning on or after 1 January 2018),
- Amendments to various standards "Improvements to IFRSs (cycle 2014–2016)" resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording (amendments to IFRS 12 are to be applied for annual periods beginning on or after 1 January 2017 and amendments to IFRS 1 and IAS 28 are to be applied for annual periods beginning on or after 1 January 2018),

- IFRIC Interpretation 22 "Foreign Currency Transactions and Advance Consideration (effective for annual periods beginning on or after 1 January 2018).

Relating to the adoption of the IFRS 16 Leases standard, the Group is in a position of lessor, and doesn't expect significant impact due to the application, however detailed impact analysis has not been performed yet.
Hedge accounting regarding the portfolio of financial assets and liabilities, whose principle has not been adopted by the EU, is still unregulated.

According to the Group's estimates, application of hedge accounting for the portfolio of financial assets or liabilities pursuant to IAS 39: "Financial Instruments: Recognition and Measurement", would not significantly impact the financial statements of the Group, if applied as at the balance sheet date.

The adoption of the above presented Amendments to the existing Standards, new Standards and Interpretations would have no significant impact on the Consolidated Financial Statements in the period of initial application.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Significant accounting policies applied in the preparation of the accompanying Consolidated Financial Statements are summarized below:

2.1 Basis of Presentation

These Consolidated Financial Statements have been prepared under the historical cost convention with the exception of certain financial instruments, which are recorded at fair value. Revenues and expenses are recorded in the period in which they are earned or incurred.

The presentation of Consolidated Financial Statements in conformity with IFRS requires the Management of the Group to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and their reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.
Future changes in economic conditions, business strategies, regulatory requirements, accounting rules and other factors could result in a change in estimates that could have a material impact on future financial statements.

2.2 Foreign currency translation

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currencies are translated into functional currencies at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the exchange rates quoted by the National Bank of Hungary ("NBH"), or if there is no official rate, at exchange rates quoted by OTP as at the date of the Consolidated Financial Statements. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognized in profit or loss in the period in which they arise except for:

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment

to interest costs on those foreign currency borrowings;
- exchange differences on transactions entered into in order to hedge certain foreign currency risks (see note 2.7 below for hedging accounting policies); and
- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognized initially in Other Comprehensive Income and reclassified from equity to profit or loss on repayment of the monetary items.

For the purposes of presenting Consolidated Financial Statements, the assets and liabilities of the Group's foreign operations are translated into HUF using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognized in Other Comprehensive Income and accumulated in equity (attributed to non-controlling interests as appropriate).

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a jointly controlled entity that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Group are reclassified to profit or loss.

In addition, in relation to a partial disposal of a subsidiary that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognized in profit or loss. For all other partial disposals (i.e. partial disposals of associates or jointly controlled entities that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

Goodwill and fair value adjustments on identifiable assets and liabilities acquired arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognized in Other Comprehensive Income and accumulated in equity.

2.3 Principles of consolidation

Included in these Consolidated Financial Statements are the accounts of those subsidiaries in which the Bank exercises control. The list of the major fully consolidated subsidiaries, the percentage of issued capital owned by the Bank and the description of their activities is provided in Note 33. However, certain subsidiaries in which the Bank holds a significant interest have not been consolidated because the effect of consolidating such companies is not material to the Consolidated Financial Statements as a whole (see Note 2.13). As the ultimate parent, the Bank is preparing consolidated financial statement of the Group.

2.4 Accounting for acquisitions

Business combinations are accounted for using purchase method of accounting. Any goodwill arising on acquisition is recognized in the Consolidated Statement of Financial Position and accounted for as indicated below.
The acquisition date is the date on which the acquirer effectively obtains control over the acquiree. Before this date, it should be presented as Advance for investments within Other assets.

Goodwill, which represents the residual cost of the acquisition after obtaining the control over the acquiree in the fair value of the identifiable assets, liabilities and contingent liabilities acquired, is held as an intangible asset and recorded at cost less any accumulated impairment losses in the Consolidated Financial Statements.

If the Group loses control of a subsidiary, derecognizes the assets (including any goodwill) and liabilities of the subsidiary at their carrying amounts at the date when control is lost and recognizes any difference as a gain or loss on the sale attributable to the parent in Statement of Recognized Income.
Goodwill acquired in a business combination is tested for impairment annually or more frequently if events or changes in circumstances indicate. The goodwill is allocated to the cost generating units that are expected to benefit from the synergies of the combinations. The Group calculates the fair value based on discounted cash-flow model. The 5 year period explicit cash-flow model serves as a basis for the impairment test by which the Group defines the impairment need on goodwill based on the strategic factors and financial data of its cash-generating units.
The Group, in its strategic plan, has taken into consideration the effects of the present global economic situation, the cautious recovery of economic situation and outlook, the associated risks and their possible effect on the financial sector as well as the current and expected availability of wholesale funding.

Negative goodwill (gain from bargain purchase), when the interest of the acquirer in the net fair value of the acquired identifiable net assets exceeds the cost of the business combination, is recognized immediately in the Consolidated Statement of Recognized Income as other income.

2.5 Securities held-to-maturity

Investments in securities, traded in active market (with fixed or determinable cash-flows) are accounted for on a settlement date basis and are initially measured at fair value.
At subsequent reporting dates, securities that the Group has the expressed intention and ability to hold to maturity are measured at amortised cost, less any impairment losses recognized to reflect irrecoverable amounts. The annual amortisation of any discount or premium on the acquisition of a held-to-maturity security is aggregated with other investment income receivable over the term of the investment so that the revenue recognized in each period represents a constant yield on the investment.
Such securities comprise mainly securities issued by the Hungarian and foreign Government, discounted Treasury bills, mortgage bonds and corporate bonds.

2.6 Financial assets at fair value through profit or loss

2.6.1 Securities held for trading

Investments in securities are accounted for on a settlement date basis and are initially measured at fair value. Securities held for trading are measured at subsequent reporting dates at fair value. Unrealized gains and losses on held for trading securities are recognized in profit or loss and included in the Consolidated Statement of Recognized Income for the period. The Group mainly holds these securities to obtain short-term gains consequently realised and unrealised gains and losses are recognized in the net operating income. The Group applies the FIFO[1] inventory valuation method for securities held for trading, Such securities consist of corporate shares, Hungarian and foreign government bonds, discounted and interest bearing treasury bills and other securities.

2.6.2 Derivative financial instruments

In the normal course of business, the Group is a party to contracts for derivative financial instruments, which represent a very low initial

[1] First In First Out

investment compared to the notional value of the contract and their value depends on value of underlying asset and are settled in the future. The derivative financial instruments used include interest rate forward or swap agreements and currency forward or swap agreements and options. These financial instruments are used by the Group both for trading purposes and to hedge interest rate risk and currency exposures associated with its transactions in the financial markets.

Derivative financial instruments are accounted for on a trade date basis and are initially measured at fair value and at subsequent reporting dates also at fair value. Fair values are obtained from quoted market prices, discounted cash-flow models and option pricing models as appropriate. The Group adopts multi curve valuation approach for calculating the net present value of future cash-flows – based on different curves used for determining forward rates and used for discounting purposes. It shows the best estimation of such derivative deals that are collateralised as the Group has almost all of its open derivative transactions collateralised.

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognized in profit or loss and are included in the Consolidated Statement of Recognized Income for the period. Each derivative deal is determined as asset when fair value is positive and as liability when fair value is negative.
Certain derivative transactions, while providing effective economic hedges under the risk management policy of the Group, do not qualify for hedge accounting under the specific rules of IAS 39 and are therefore treated as derivatives held for trading with fair value gains and losses charged directly to the Consolidated Statement of Recognized Income.

Foreign currency contracts

Foreign currency contracts are agreements to exchange specific amounts of currencies at a specified rate of exchange, at a spot date (settlement occurs two days after the trade date) or at a forward date (settlement occurs more than two days after the trade date).
The notional amount of these spot contracts does not represent the actual market or credit risk associated with these contracts.
Foreign currency contracts are used by the Group for risk management and trading purposes. The risk management foreign currency contracts of the Group were used to hedge the exchange rate fluctuations of loans and deposits to credit institutions denominated in foreign currency.

Foreign exchange swaps and interest rate swaps

The Group enters into foreign exchange swap and interest rate swap transactions. The swap transaction is a complex agreement concerning the swap of certain financial instruments, which usually consists of a prompt and one or more forward contracts.
Interest rate swaps oblige two parties to exchange one or more payments calculated with reference to fixed or periodically reset rates of interest applied to a specific notional principal amount (the base of the interest calculation). Notional principal is the amount upon which interest rates are applied to determine the payment streams under interest rate swaps. Such notional principal amounts often are used to express the volume of these transactions but are not actually exchanged between the counterparties.
The interest rate swaps are used by the Group for risk management and trading purposes.

Cross-currency interest rate swaps

The Bank enters into cross-currency interest rate swap (CCIRS) transactions which have special attributes, i.e. the parties exchange the notional amount at the beginning and also at the maturity of the transaction. A special type of these deals is the mark-to-market CCIRS agreements. At this kind of deals the parties – in accordance with the foreign exchange prices – revalue the notional amount during lifetime of the transaction.

Equity and commodity swaps

Equity swaps obligate two parties to exchange more payments calculated with reference periodically reset rates of interest and performance of indexes. A specific notional principal amount is the base of the interest calculation. The payment of index return is calculated on the basis of current market price compared to the previous market price. In case of commodity swaps payments are calculated on the basis of the strike price of a predefined commodity compared to its average market price in a period. Equity and commodity swap deals made by the Bank enables both local players to open positions in international capital markets (leading benchmark indices like S&P 500 or commodity futures like WTI Light Crude Oil), without facing the transaction costs of accessing these markets and international players to open positions in domestic equity instruments, without the need of funding these positions. Exposures taken from the clients are hedged on equity or future markets.

Forward rate agreements (FRA)

A forward rate agreement is an agreement to settle amounts at a specified future date based on the difference between an interest rate index and an agreed upon fixed rate. Market risk arises from changes in the market value of contractual positions caused by movements in interest rates.

The Group limits its exposure to market risk by entering into generally matching or offsetting positions and by establishing and monitoring limits on unmatched positions. Credit risk is managed through approval procedures that establish specific limits for individual counter-parties. The Group's forward rate agreements were transacted for management of interest rate exposures and have been accounted for at mark-to-market fair value.

Foreign exchange options

A foreign exchange option is a derivative financial instrument that gives the owner the right to exchange money denominated in one currency into another currency at a pre-agreed exchange rate at a specified future date.
The transaction, for a fee, guarantees a worst-case exchange rate for the futures purchase of one currency for another. These options protect against unfavourable currency movements while preserving the ability to participate in favourable movements.

2.7 Derivative financial instruments designated as a fair-value or cash-flow hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges and that prove to be highly effective in relation to the hedged risk, are recorded in the Consolidated Statement of Recognized Income along with the corresponding change in fair value of the hedged asset or liability that is attributable to the specific hedged risk.
The ineffective element of the hedge is charged directly to the Consolidated Statement of Recognized Income.
The conditions of hedge accounting applied by the Bank are the following: formally designed as hedge, proper hedge documentation is prepared, effectiveness test is performed and based on it the hedge is qualified as effective.

Changes in fair value of derivatives that are designated and qualify as cash-flow hedges and that prove to be highly effective in relation to the hedged risk are recognized as reserve in other comprehensive income. Amounts deferred in Other comprehensive income are transferred to the Consolidated Statement of Recognized Income and classified as revenue or

expense in the periods during which the hedged assets and liabilities effect the Consolidated Statement of Recognized Income for the period. The ineffective element of the hedge is charged directly to the Consolidated Statement of Recognized Income.
The Group terminates the hedge accounting if the hedging instrument expires or is sold, terminated or exercised, or the hedge no longer meets the criteria for hedge accounting or the Group revokes the designation.

2.8 Offsetting

Financial assets and liabilities may be offset and the net amount is reported in the Consolidated Statement of Financial Position when the Group has a legally enforceable right to set off the recognized amounts and the transactions are intended to be reported in the Consolidated Statement of Financial Position on a net basis. The Group does not offset any financial assets and financial liabilities.

2.9 Embedded derivatives

Sometimes, a derivative may be a component of a combined financial instrument that includes a host contract and a derivative (the embedded derivative) effecting cash-flows or otherwise modifying the characteristics of the host instrument. An embedded derivative must be separated from the host instrument and accounted for as a separate derivative if, and only if:

- The economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract;
- A separate financial instrument with the same terms as the embedded derivative would meet the definition of a derivative as a stand-alone instrument; and
- The host instrument is not measured at fair or is measured at fair value but changes in fair value are recognized in Other Comprehensive Income.

2.10 Securities available-for-sale

Investments in securities are accounted for on a settlement date basis and are initially measured at fair value. Securities available-for-sale are measured at subsequent reporting dates at fair value. Unrealized gains and losses on available-for-sale financial instruments are recognized directly in Other Comprehensive Income, except for interest and foreign exchange gains/losses on monetary items, unless such available-for-sale security is part of an effective hedge. Such gains and losses will be reported when realized in Consolidated Statement of Recognized Income for the applicable period. The Group applies the FIFO inventory valuation method for securities held for trading.
Such securities consist of Hungarian and foreign government bonds, corporate bonds, discounted Treasury bills and other securities. Other securities include shares in investment funds, shares in non-financing companies and venture capital fund bonds.

The provision for impairment is calculated based on discounted cash-flow methodology for debt instruments and calculated based on fair valuation on equity instruments, using the expected future cash-flow and original effective interest rate if there is objective evidence of impairment based on significant or prolonged decrease in fair value.

Securities available-for-sale are remeasured at fair value based on quoted prices or amounts derived from cash-flow models. In circumstances where the quoted market prices are not readily available, the fair value of debt securities is estimated using the present value of future cash-flows and the fair value of any unquoted equity instruments are calculated using the EPS ratio.

Those available-for-sale financial assets that do not have a quoted market price and whose fair value cannot be reliably measured by other models mentioned above, are measured at cost, less provision for impairment, when appropriate. This exception is related only to equity instruments. Impairment on equity available-for-sale securities is accounted only if there is a significant or prolonged decrease in the market value. Impairment losses recognised in profit or loss for an investment in an equity instrument classified as available-for-sale securities is not reversed through profit or loss.

2.11 Loans, placements with other banks and allowance for loan and placement losses

Loans and placements with other banks are accounted at amortized cost, stated at the principal amounts outstanding (including accrued interest), net of allowance for loan or placement losses, respectively. Transaction fees and charges should adjust the carrying amount at initial recognition and be included in effective interest calculation. Loans and placements with other banks are derecognised when the contractual rights to the cash-flows expire or they are transferred. Interest and amortised cost are accounted using effective interest rate method.
When a borrower is unable to meet payments as they fall due or, in the opinion of the Management, there is an indication that a borrower may be unable to meet payments as they fall due, all unpaid interest is impaired.

According to IAS 39, initially financial asset shall be recognized at fair value which is usually equal to transaction value of loans and receivables. Initial fair value of loans and receivables lent at interest below market conditions is lower than their transaction price. As a consequence the Bank is deferring the difference between the fair value at initial recognition and the transaction price relating to loans and receivables because input data for measuring the fair values are not available on observable markets.

The amount of allowance is the difference between the carrying amount and the recoverable amount, being the present value of the expected cash-flows, including amounts recoverable from guarantees and collateral, discounted at the original effective interest rate.

Allowance for loan and placement losses with other banks represent Management assessment for potential losses in relation to these activities.

The allowances for loan and placement losses are maintained to cover losses that have been specifically identified. Collective impairment losses of portfolios of loans, for which no objective evidence of impairment has been identified on an individual basis, are maintained to reduce the carrying amount of the portfolios of financial assets with similar credit risk characteristics to their estimated recoverable amounts at the balance sheet date.
The expected cash-flows for portfolios of similar assets are estimated based on historical loss experience. Historical loss experience is the basis for calculating the expected loss, which is adjusted by the loss confirmation period, which represents the average time lag between occurrence of a loss event and confirmation of the loss. This concept enables recognition of those losses that have occurred in the portfolio at the balance sheet date.

If the reason for provisioning is no longer deemed appropriate, the redundant provisioning charge is released into net operating income. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss shall be reversed by adjusting an allowance account. The reversal shall not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed.

Write-offs are generally recorded after all reasonable restructuring or collection

activities have taken place and the possibility of further recovery is considered to be remote. The loan is written off against the related account "Provision for impairment on loan and placement losses" in the Consolidated Statement of Recognized Income.
The Group applies partial or full write-off for loans based on the definitions and prescriptions of financial instruments in accordance with IAS 39. If the Group has no reasonable expectations regarding a financial asset (loan) to be recovered, it will be written off partially or fully at the time of emergence. A loan will be written off if it is overdue or was terminated by the Group.
The gross amount and impairment loss of the loans shall be written off in the same amount to the estimated maximum recovery amount while the net carrying value remains unchanged. Loan receivables legally demanded from clients are equal to the former gross amount of the loan before the partial write-off.

2.12 Sale and repurchase agreements, security lending

Where debt or equity securities are sold under a commitment to repurchase them at a pre-determined price, they remain on Statement of Financial Position and the consideration received is recorded in Other liabilities or Amounts due to banks, the Hungarian Government, deposits from the National Banks and other banks. Conversely, debt or equity securities purchased under a commitment to resell are not recognized in the Statement of Financial Position and the consideration paid is recorded either in Placements with other banks or Deposits from customers. Interest is accrued evenly over the life of the repurchase agreement.
In the case of security lending transactions the Group doesn't recognize or derecognize the securities because believes that the transferor retains substantially all the risks and rewards of the ownership of the securities. Only a financial liability or financial receivable is recognized for the consideration amount.

2.13 Associates and other investments

Companies where the Bank has the ability to exercise significant influence are accounted for using the equity method. However, certain associated companies in which the Bank holds a significant interest have not been accounted for in accordance with the equity method because the effect of using the equity method to account for such companies is not material to the Consolidated Financial Statements as a whole. Unconsolidated subsidiaries and associated companies that were not accounted for using the equity method and other investments where the Bank does not hold a significant interest are recorded according to IAS 39, when appropriate. Gains and losses on the sale of investments are determined on the basis of the specific identification of the cost of each investment.

2.14 Property and equipment, Intangible assets

Property and equipment and Intangible assets are stated at cost, less accumulated depreciation and amortization and impairment, if any. The depreciable amount (book value less residual value) of the non-current assets must be allocated over the useful lives.

Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets based on the following annual percentages:

Intangible assets	
Software	3.33–67%
Property rights	5–50%
Property	1–38.7%
Office equipment and vehicles	1–50%

Depreciation and amortization on Property and equipment and Intangible assets commence on the day such assets are placed into service. At each balance sheet date, the Group reviews the carrying value of its Property and equipment and Intangible assets to determine if there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent (if any) of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Where the carrying value of Property and equipment and Intangible assets is greater than the estimated recoverable amount, it is impaired immediately to the estimated recoverable amount.

The Group may conclude contracts for purchasing property, equipment and intangible assets, where the purchase price is settled in foreign currency. By entering into such agreements, firm commitment in foreign currency due on a specified future date arises at the Group. Reducing the foreign currency risk caused by firm commitment, forward foreign currency contracts may be concluded to ensure the amount payable in foreign currency on a specified future date on one hand and to eliminate the foreign currency risk arising until settlement date of the contract on the other hand.
In the case of effective hedge the realised profit or loss of hedging instrument is stated as the part of the cost of the hedged asset as it has arisen until recognising the asset and it is tightly connecting to the purchasing.

2.15 Financial liabilities

The financial liabilities are presented within financial liabilities at fair value through profit or loss or financial liabilities measured at amortized costs. In connection to the financial liabilities at fair value through profit or loss, the Group presents the amount of change in their fair value originated from the changes of market conditions and business environment. Financial liabilities at fair value through profit or loss are either financial liabilities held for trading or they are designated upon initial recognition as at fair value through profit or loss. In the case of financial liabilities measured at amortized cost fees and commissions related to the origination of the financial liability are recognized through profit or loss during the maturity of the instrument. In certain cases the Group repurchases a part of financial liabilities (mainly issued securities or subordinated bonds) and the difference between the carrying amount of the financial liability and the amount paid for it is recognized in the net profit or loss for the period and included in other operating income.

2.16 Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as a lessor

Amounts due from lessees under finance leases are recorded as other receivables at the amount of the net investment in the lease of the Group. Finance lease income is allocated to accounting periods so as to reflect a constant rate of return on the net investment outstanding of the Group in respect of the leases. Direct costs such as commissions are included in the initial measurement of the finance lease receivables. Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease.

The Group as a lessee

Assets held under finance leases, which confer rights and obligations similar to those attached to owned assets, are capitalised at their fair value and depreciated over the useful lives of assets. The principal element of each future lease obligation is recorded as a liability, while the interest elements are charged to the Consolidated Statement of Recognized Income over the period of the leases to produce a constant rate of charge on the balance of principal payments outstanding.

Payments made under operating leases are charged to the Consolidated Statement of Recognized and Comprehensive Income on a straight-line basis over the term of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognized as an expense in the period in which termination takes place.

2.17 Investment properties

Investment properties of the Group are land, buildings, part of buildings which held (as the owner or as the lessee under a finance lease) to earn rentals or for capital appreciation or both, rather than for use in the production or supply of services or for administrative purposes or sale in the ordinary course of business. The Group measures the investment properties at amortized cost and according to the opinion of the Management there isn't significant difference between the fair value and the carrying value of the these properties.

2.18 Treasury shares

Treasury shares are shares which are purchased on the stock exchange and the over-the-counter market by the Bank and its subsidiaries and are presented in the Consolidated Financial Position at cost as a deduction from Consolidated Shareholders' Equity.
Gains and losses on the sale of treasury shares are credited or charged directly to shareholder's equity. Derecognition of treasury shares is based on the FIFO method.

2.19 Interest income and interest expense

Interest income and expenses are recognized in profit or loss in the period to which they relate, using the effective interest rate method. Interest from loans and deposits are accrued on a daily basis. Interest income and expenses include relevant transaction costs and the amortisation of any discount or premium between the initial carrying amount of an interest-bearing instrument and its amount at maturity calculated on an effective interest rate basis.
The Group recognizes interest income when assumes that the interest associated with the transaction will flow to the Group and the amount of the revenue can be reasonably measured. All interest income and expense recognized are arising from loans, placements with other banks, securities held for trading, securities available-for-sale, securities held-to-maturity and amounts due to banks, deposits from customers, liabilities from issued securities, subordinated bond and loans are presented under these lines of financial statements.

2.20 Fees and Commissions

Fees and commissions are recognized using the effective interest method referring to provisions of IAS 39, when they relate and have to be included in amortized cost model. Certain fees and commissions that are not involved in the amortized cost model are recognized in the Consolidated Statement of Recognized Income on an accrual basis based on IAS 18.

2.21 Dividend income

The Group recognizes dividend income in the Consolidated Financial Statements when its right to receive payment is established.

2.22 Income tax

The annual taxation charge is based on the tax payable under fiscal regulations prevailing in the country where the company is incorporated, adjusted for deferred taxation.

Deferred taxation is accounted for using the balance sheet liability method in respect of temporary differences between the tax bases of assets and liabilities and their carrying value for financial reporting purposes, measured at the tax rates that apply to the future period when the asset is expected to be realized or the liability is settled.

Deferred tax assets are recognized by the Group for the amounts of income taxes that are recoverable in future periods in respect of deductible temporary differences as well as the carryforward of unused tax losses and the carryforward of unused tax credits.

2.23 Off-balance sheet commitments and contingent liabilities

In the ordinary course of its business, the Group enters into off-balance sheet commitments such as guarantees, letters of credit, commitments to extend credit and transactions with financial instruments. The provision for impairment on off-balance sheet commitments and contingent liabilities is maintained at a level adequate to absorb future cash outflows which are probable and relate to present obligations.

Management determines the adequacy of the allowance based upon reviews of individual items, recent loss experience, current economic conditions, the risk characteristics of the various categories of transactions and other pertinent factors.

The Group recognizes provision when it has a present obligation as a result of a past event; it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and a reliable estimate can be made of the obligation.

2.24 Share-based payment and employee benefit

The Bank has applied the requirements of IFRS 2 Share-based Payment.

The Bank issues equity-settled share-based payment to certain employees. Equity-settled share-based payment is measured at fair value at the grant date. The fair value determined at the grant date of the equity-settled share-based payment is expensed on a straight-line basis over the year, based on the Bank's estimate of shares that will eventually vest. Share-based payment is recorded in Consolidated Statement of Recognized Income as Personnel expenses.

Fair value is measured by use of a binomial model. The expected life used in the model has been adjusted, based on Management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations. The Group has applied the requirement of IAS 19 Employee Benefits. IAS 19 requires to recognise employee benefits to be paid as a liability and as an expense in the Consolidated Financial Statements.

2.25 Consolidated Statement of Cash-flows

For the purposes of reporting Consolidated Statement of Cash-flows, cash and cash equivalents include cash, due from banks and balances with the National Banks, excluding the compulsory reserve established by the National Banks. Consolidated cash-flows from hedging activities are classified in the same category as the item being hedged. The unrealized gains and losses from the translation of monetary items to the closing foreign exchange rates and unrealized gains and losses from derivative financial instruments are presented net in the statement of cash-flows for the monetary items which were being revalued.

2.26 Segment reporting

IFRS 8 Operating Segments requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segments and to assess their performance.
Based on the above, the segments identified by the Group are the business and geographical segments.
The Group's operating segments under IFRS 8 are therefore as follows:
OTP Core Hungary, Russia, Ukraine, Bulgaria, Romania, Serbia, Croatia, Slovakia, Montenegro, Leasing subsidiaries, Asset Management subsidiaries, Other subsidiaries, Corporate Center.

2.27 Comparative figures

There were no changes in prior period data due to either prior period error or change in accounting policies. In some notes certain amounts in the Consolidated Financial Statements for the year ended 31 December 2015 have been restructured within the particular note to conform with the current year presentation and these amounts are not significant.

NOTE 3: SIGNIFICANT ACCOUNTING ESTIMATES AND DECISIONS IN THE APPLICATION OF ACCOUNTING POLICIES

The presentation of financial statements in conformity with IFRS requires the Management of the Group to make judgement about estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as at the date of the financial statements and their reported amounts of revenues and expenses during the reporting period. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. The estimates and underlying assumptions are reviewed on ongoing basis. Revisions to accounting estimates are recognized in the period. Actual results could differ from those estimates. Significant areas of subjective judgement include:

3.1 Impairment on loans and placements

The Group regularly assesses its loan portfolio for impairment. Management determines the adequacy of the allowances based upon reviews of individual loans and placements, recent loss experience, current economic conditions, the risk characteristics of the various categories of loans and other pertinent factors. Provisioning involves many uncertainties about the outcome of those risks and requires the Management of the Group to make many subjective judgements in estimating the loss amounts. An impairment loss is incurred when there is objective evidence of impairment due to one or more events that occurred after the initial recognition of the asset ('a loss event'), when the loss has a reliably measurable impact on the expected future cash flows from the financial asset or group of financial assets. Future cash flows are assessed by the Group on the basis of estimates based on historical parameters. The adopted methodology used for estimating impairment allowances will be developed in line with the further possibilities of accumulations of historic impairment data from the existing information systems and applications. As a consequence, acquiring new data by the Group could affect the level of impairment allowances in the future.

3.2 Valuation of instruments without direct quotations

Financial instruments without direct quotations in an active market are valued using the valuation model technique. The models are regularly reviewed and each model is calibrated for the most recent available market data. While the models are built only on available data, their use is subject to certain assumptions and estimates (e.g. correlations, volatilities etc.). Changes in the model assumptions may affect the reported fair value of the relevant financial instruments.

IFRS 13 Fair Value Measurement seeks to increase consistency and comparability in fair value measurements and related disclosures through a 'fair value hierarchy'. The hierarchy categorises the inputs used in valuation techniques into three levels. The hierarchy gives the highest priority to (unadjusted) quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The objective of a fair value measurement is to estimate the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under current market conditions.

3.3 Provisions

Provisions are recognized and measured based on IAS 37 Provisions, Contingent Liabilities

and Contingent Assets. The Group is involved in a number of ongoing legal disputes. Based upon historical experience and expert reports, the Group assesses the developments in these cases, and the likelihood and the amount of potential financial losses which are appropriately provided for (see Note 18).
A provision is recognized by the Group when it has a present obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.
Provision for off-balance sheet items includes provision for litigation, provision for retirement and expected liabilities, for commitments to extend credit, provision for warranties arising from banking activities and provision for confirmed letter of credit.

3.4 Impairment on goodwill

Goodwill acquired in a business combination is tested for impairment annually or more frequently when there is an indication that the unit might be impaired, in accordance with IAS 36 "Impairment of assets".
The Group calculates the fair value based on discounted cash-flow model. The 5 year period explicit cash-flow model serves as a basis for the impairment test by which the Group defines the impairment need on goodwill based on the strategic factors and financial data of its cash-generating units. In the calculation of the goodwill impairment, also the expectations about possible variations in the amount or timing of those future cash-flows, the time value of money, represented by the current market risk-free rate of interest and other factors are reflected.

NOTE 4: CASH, AMOUNTS DUE FROM BANKS AND BALANCES WITH THE NATIONAL BANKS (in HUF mn)

	2016	2015
Cash on hand		
In HUF	89,402	78,182
In foreign currency	165,425	146,718
	254,827	**224,900**
Amounts due from banks and balances with the National Banks		
Within one year:		
In HUF	501,249	1,203,223
In foreign currency	869,034	449,139
	1,370,283	**1,652,362**
Over one year:		
In HUF	–	2
In foreign currency	–	–
	–	**2**
Accrued interest	247	1,696
	1,370,530	**1,654,060**
Total	**1,625,357**	**1,878,960**
Compulsory reserve set by the National Banks	**496,747**	**451,668**

NOTE 5: PLACEMENTS WITH OTHER BANKS, NET OF ALLOWANCE FOR PLACEMENT LOSSES (in HUF mn)

	2016	2015
Within one year:		
In HUF	55,804	57,207
In foreign currency	299,755	241,952
	355,559	**299,159**
Over one year:		
In HUF	5,206	–
In foreign currency	2,699	1,396
	7,905	**1,396**
Accrued interest	161	63
Provision for impairment on placement losses	(95)	(50)
Total	**363,530**	**300,568**

An analysis of the change in the provision for impairment on placement with other banks is as follows:

	2016	2015
Balance as at 1 January	**50**	**47**
Provision for the period	46	3
Foreign currency translation difference	(1)	–
Closing balance	**95**	**50**

Interest conditions of placements with other banks:

	2016	2015
In HUF	0.01%–2.86%	0.1%–6.4%
In foreign currency	(15.0)%–16.5%	0.01%–14.9%
Average interest rates on placements with other banks	**1.25%**	**0.88%**

NOTE 6: FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (in HUF mn)

Securities held for trading:

	2016	2015
Shares	104,402	72,620
Government bonds	40,095	25,866
Interest bearing treasury bills	15,639	7,768
Discounted Treasury bills	97	366
Other securities	14,396	178
Other non-interest bearing securities	9,237	4,507
	183,866	**111,305**
Accrued interest	930	671
Total	**184,796**	**111,976**

Positive fair value of derivative financial instruments classified held for trading:

	2016	2015
Interest rate swaps classified as held for trading	38,878	33,770
CCIRS and mark-to-market CCIRS* classified as held for trading	34,100	84,270
Foreign exchange swaps classified as held for trading	17,148	15,551
Foreign exchange forward contracts classified as held for trading	94	124
Other derivative transactions classified as held for trading	18,090	8,091
	108,310	**141,806**
Total	**293,106**	**253,782**

An analysis of securities held for trading portfolio by currency:

	2016	2015
Denominated in HUF (%)	74.1%	84.0%
Denominated in foreign currency (%)	25.9%	16.0%
Total	**100.0%**	**100.0%**

An analysis of government bond portfolio by currency:

	2016	2015
Denominated in HUF (%)	25.8%	48.4%
Denominated in foreign currency (%)	74.2%	51.6%
Total	**100.0%**	**100.0%**
Interest rates on securities held for trading	0.33%–7.75%	1.1%–8.75%
Average interest rates on securities held for trading	**0.60%**	**4.33%**

Interest conditions and the remaining maturities of securities held for trading can be analysed as follows:

	2016	2015
Within one year:		
With variable interest	1,845	18
With fixed interest	32,219	8,547
	34,064	**8,565**
Over one year:		
With variable interest	3,111	2,181
With fixed interest	33,052	23,432
	36,163	**25,613**
Non-interest bearing securities	113,639	77,127
Total	**183,866**	**111,305**

* CCIRS: Cross Currency Interest Rate Swaps (see Note 2.6.2).

NOTE 7: SECURITIES AVAILABLE-FOR-SALE (in HUF mn)

	2016	2015
Government bonds	1,323,178	1,142,470
Corporate bonds	130,533	51,278
From this:		
Listed securities:		
In HUF	41,448	–
In foreign currency	23,871	7,399
	65,319	7,399
Non-listed securities:		
In HUF	38,990	43,879
In foreign currency	26,224	–
	65,214	43,879
Discounted Treasury bills	20,944	33,970
Other securities	441	12,422
Other non-interest bearing securities	36,728	45,222
From this:		
Listed securities:		
In HUF	1,460	1,218
In foreign currency	49	7,410
	1,509	8,628
Non-listed securities:		
In HUF	12,541	17,562
In foreign currency	22,678	19,032
	35,219	36,594
	1,511,824	**1,285,362**
Accrued interest	15,574	20,507
Provision for impairment on securities available-for-sale	(305)	(383)
Total	**1,527,093**	**1,305,486**

An analysis of securities available-for sale by currency:

	2016	2015
Denominated in HUF	68.1%	74.8%
Denominated in foreign currency	31.9%	25.2%
Total	**100.0%**	**100.0%**

An analysis of government bonds by currency:

	2016	2015
Denominated in HUF	70.6%	78.5%
Denominated in foreign currency	29.4%	21.5%
Total	**100.0%**	**100.0%**

	2016	2015
Interest rates on securities available-for-sale denominated in HUF	0.33%–7.5%	0.8%–7.5%
Interest rates on securities available-for-sale denominated in foreign currency	0.1%–26.4%	0.4%–28.0%
Average interest rates on securities available-for-sale denominated in HUF	2.30%	2.96%
Average interest rates on securities available-for-sale denominated in foreign currency	3.25%	3.48%

Interest conditions and the remaining maturities of available-for-sale financial assets can be analysed as follows:

	2016	2015
Within one year:		
With variable interest	597	431
With fixed interest	161,781	130,717
	162,378	131,148
Over one year:		
With variable interest	40,340	42,372
With fixed interest	1,272,378	1,066,620
	1,312,718	1,108,992
Non-interest bearing securities	36,728	45,222
Total	**1,511,824**	**1,285,362**

An analysis of the change in the provision for impairment on securities available-for-sale is as follows:

	2016	2015
Balance as at 1 January	**383**	**1,274**
Provision for the period	3	17
Release of provision	(58)	–
Use of provision	(2)	(831)
Foreign currency translation difference	(21)	(77)
Closing balance	**305**	**383**

Certain securities are hedged against interest rate risk. See Note 41.

NOTE 8: LOANS, NET OF ALLOWANCE FOR LOAN LOSSES (in HUF mn)

	2016	2015
Short-term loans and promissory notes (within one year)	2,242,709	2,112,909
Long-term loans and promissory notes (over one year)	4,397,045	4,260,765
	6,639,754	**6,373,674**
Accrued interest	40,751	49,913
Provision for impairment on loan losses	(944,273)	(1,013,620)
Total	**5,736,232**	**5,409,967**

An analysis of the gross loan portfolio by currency:

	2016	2015
In HUF	38%	36%
In foreign currency	62%	64%
Total	**100%**	**100%**

Interest rates of the loan portfolio are as follows:

	2016	2015
Short-term loans denominated in HUF	0.0%–44.1%	0.01%–40.7%
Long-term loans denominated in HUF	(0.35%)–37.5%	0.01%–40.7%
Short-term loans denominated in foreign currency	(0.7%)–64.9%	0.01%–66.9%
Long-term loans denominated in foreign currency	(0.7%)–59.7%	0.01%–59.7%
Average interest rates on loans denominated in HUF	8.48%	10.27%
Average interest rates on loans denominated in foreign currency	8.35%	9.37%

An analysis of the change in the provision for impairment on loan losses is as follows:

	2016	2015
Balance as at 1 January	**1,013,620**	**1,129,085**
Provision for the period	419,801	607,856
Release of provision	(358,545)	(332,171)
Use of provision	(94,188)	(195,846)
Partial write-off*	(36,267)	(84,537)
Foreign currency translation difference	(148)	(110,767)
Closing balance	**944,273**	**1,013,620**

Provision for impairment on loan and placement losses is summarized as below:

	2016	2015
Release of provision on placement losses	(132)	(6)
Provision for impairment on loan losses	93,605	318,689
Total	**93,473**	**318,683**

* See details in Note 2.11.

NOTE 9: ASSOCIATES AND OTHER INVESTMENTS (in HUF mn)

	2016	2015
Investments*		
Investments in associates (non-listed)	6,240	5,936
Other investments (non-listed) at cost	7,926	7,974
	14,166	**13,910**
Provision for impairment on investments	(4,330)	(3,882)
Total	**9,836**	**10,028**

An analysis of the change in the provision for impairment on investments is as follows:

	2016	2015
Balance as at 1 January	**3,882**	**3,304**
Provision for the period	687	1,094
Use of provision	(234)	(139)
Change due to merge	–	(375)
Foreign currency translation difference	(5)	(2)
Closing balance	**4,330**	**3,882**

NOTE 10: SECURITIES HELD-TO-MATURITY (in HUF mn)

	2016	2015
Government bonds	1,095,897	909,556
Discounted Treasury bills	113	116
Mortgage bonds	52	–
Corporate bonds	5	5
	1,096,067	**909,677**
Accrued interest	18,960	17,807
Provision for impairment on securities held-to-maturity	(800)	(807)
Total	**1,114,227**	**926,677**

Interest conditions and the remaining maturities of securities held-to-maturity can be analysed as follows:

	2016	2015
Within one year:		
With variable interest	10	3,339
With fixed interest	120,079	91,778
	120,089	95,117
Over one year:		
With variable interest	635	195
With fixed interest	975,343	814,365
	975,978	814,560
Total	**1,096,067**	**909,677**

An analysis of securities held-to-maturity by currency:

	2016	2015
Denominated in HUF (%)	91.0%	89.6%
Denominated in foreign currency (%)	9.0%	10.4%
Total	**100.0%**	**100.0%**

	2016	2015
Interest rates of securities held-to-maturity with variable interest	0.9%–4.7%	0.01%–0.6%
Interest rates of securities held-to-maturity with fixed interest	2.2%–14.0%	0.1%–20.7%
Average interest rates on securities held-to-maturity	5.13%	5.82%

* These instruments do not have a quoted market price in an active market and whose fair value cannot be reliably measured.

An analysis of the change in the provision for impairment on securities held-to-maturity is as follows:

	2016	2015
Balance as at 1 January	**807**	**814**
Provision for the period	18	15
Release of provision	(18)	(17)
Use of provision	(7)	(2)
Foreign currency translation difference	–	(3)
Closing balance	**800**	**807**

NOTE 11: PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS (in HUF mn)

For the year ended 31 December 2016:

	Intangibl assets and goodwill	Property	Office equipment and vehicles	Construction in progress	Total
Cost					
Balance as at 1 January	**301,539**	**197,832**	**158,985**	**10,010**	**668,366**
Additions	31,121	6,617	18,520	27,549	83,807
Foreign currency translation differences	10,328	1,686	1,832	(9)	13,837
Disposals	(43,156)	(8,233)	(16,089)	(25,099)	(92,577)
Change in consolidation scope	384	11	37	–	432
Balance as at 31 December	**300,216**	**197,913**	**163,285**	**12,451**	**673,865**
Depreciation and Amortization					
Balance as at 1 January	**145,730**	**53,451**	**119,715**	**–**	**318,896**
Charge for the period (without goodwill impairment)	23,390	5,306	15,731	–	44,427
Foreign currency translation differences	749	555	1,632	–	2,936
Disposals	(31,702)	(5,286)	(10,953)	–	(47,941)
Change in consolidation scope	18	–	13	–	31
Balance as at 31 December	**138,185**	**54,026**	**126,138**	**–**	**318,349**
Net book value					
Balance as at 1 January	**155,809**	**144,381**	**39,270**	**10,010**	**349,470**
Balance as at 31 December	**162,031**	**143,887**	**37,147**	**12,451**	**355,516**

An analysis of the intangible assets for the year ended 31 December 2016 is as follows:

	Self-developed	Other	Total
Intangible assets			
Gross values	5,545	190,389	**195,934**
Depreciation and amortization	2,742	135,443	**138,185**

An analysis of the changes in the goodwill for the year ended 31 December 2016 is as follows:

	Goodwill
Cost	
Balance as at 1 January	**95,994**
Additions	–
Foreign currency translation difference	8,288
Impairment for the current period	–
Balance as at 31 December	**104,282**
Net book value	
Balance as at 1 January	**95,994**
Balance as at 31 December	**104,282**

Book value of the goodwill allocated to the appropriate cash generation units:

List of units	HUF mn
JSC "OTP Bank" (Russia)	44,906
DSK Bank EAD	28,541
OTP banka Hrvatska d.d.	18,055
OTP Bank Romania S.A.	6,180
Monicomp Ltd.	5,732
OTP Banka Slovensko a.s.	513
Other*	355
Total	**104,282**

The Bank decided that the recoverable amount is determined based on fair value less cost of disposal. The Bank prepared goodwill impairment tests of the subsidiaries based on two different net present value calculation methods that shows the same result; however they represent different economical logics. On one hand is the discount cash-flow method (DCF) that calculates the value of the subsidiaries by discounting their expected cash-flow; on the other hand the economic value added (EVA) method estimates the value of the subsidiaries from the initial invested capital and the present value of the economic profit that the companies are expected to generate in the future. Applying the EVA method was more practically than DCF method because it gives a more realistic picture about how the explicit period and the residual value can contribute to the value of the company.

On the base of the Management's opinion in the Bank it was needed to prepare the impairment test as at 31 December 2016, where in case of two companies JSC "OTP Bank" (Russia) and OTP Bank JSC (Ukraine) a five-year (2017–2021) cash-flow model while in case of the other subsidiaries three-year cash-flow model was applied with an explicit period between 2017–2019. The base of the estimation was the annual financial strategic plan for year 2016, while for the three-year explicit period the Bank applied the prognosis for year 2017 accepted by the Management Committee of the subsidiaries and on the base of this prognosis the prepared medium-term (2018–2019) forecasts. When the Bank prepared the calculations for the period 2017–2019, considered the actual worldwide economic situations, the expected economic growth for the following years, their possible effects on the financial sector, the plans for growing which result from these and the expected changes of the mentioned factors.

Present value calculation with the DCF method

The Bank calculated the expected cash-flow for the given period based on the expected after tax profit of the companies. For calculating the discount factor as risk free rates in case of OTP banka Hrvatska d.d. (Croatia) the yield of the local government bonds in foreign currency with a period of one year was applied, while in case of the other subsidiaries the base rates of these National Banks were considered presented in the actual macro forecasts.
The Bank calculated risk premiums on the base of information from the country risk premiums that are published on damodaran.com, which were modified with CDS spread in case of OTP Banka Slovensko a.s and Crnogorska komercijalna banka a.d., since according to the Bank's assumption the risk free interest rate includes the country-dependent risks in an implicit way.
The growth rate in the explicit period is the growth rate of the profit after tax adjusted by the interest rate of the cash and subordinated loans. The supposed growth rates for the periods of residual values reflect the long-term economic expectations in case of every country.
The values of the subsidiaries in the DCF method were then calculated as the sum of the discounted cash-flows of the explicit period, the present value of the terminal values and the initial free capital assuming an effective capital structure.

* Other category includes: OTP Real Estate Leasing Ltd., Nimo 2002 Ltd., POK DSK-Rodina a.d.

Present value calculation with the EVA method

A company creates positive economic profit/value if the profitability of the invested capital is higher than the normal profit – the profit that can be usually generated in the banking sector –, which means that the company's profitability exceeds the expected yield. The economic profit of the subsidiaries was calculated by deducting the cost of invested capital from the net profit for the year.

The applied discount factor and the indicators used for calculating the residual value (long-term cost of capital and growth rate) are the same that are used in the DCF method.

Summary of the impairment test for year ended 31 December 2016

Based on the valuations of the subsidiaries no goodwill impairment was needed on Group level as at 31 December 2016.

For the year ended 31 December 2015:

	Intangible assets and goodwill	Property	Office equipment and vehicles	Construction in progress	Total
Cost					
Balance as at 1 January	**345,855**	**196,923**	**161,855**	**11,983**	**716,616**
Additions	39,057	13,068	14,950	15,484	82,559
Foreign currency translation differences	(8,707)	(3,534)	(3,535)	(110)	(15,886)
Disposals	(74,719)	(8,626)	(14,311)	(17,347)	(115,003)
Change in consolidation scope	53	1	26	–	80
Balance as at 31 December	**301,539**	**197,832**	**158,985**	**10,010**	**668,366**
Depreciation and Amortization					
Balance as at 1 January	**187,134**	**46,745**	**117,576**	**–**	**351,455**
Charge for the year (without goodwill impairment)	22,476	7,888	15,099	–	45,463
Foreign currency translation differences	(476)	437	(1,434)	–	(1,473)
Disposals	(63,404)	(1,619)	(11,526)	–	(76,549)
Balance as at 31 December	**145,730**	**53,451**	**119,715**	**–**	**318,896**
Net book value					
Balance as at 1 January	**158,721**	**150,178**	**44,279**	**11,983**	**365,161**
Balance as at 31 December	**155,809**	**144,381**	**39,270**	**10,010**	**349,470**

An analysis of the intangible assets for the year ended 31 December 2015 is as follows:

	Self-developed	Other	Total
Intangible assets			
Gross values	8,333	197,212	**205,545**
Depreciation and amortization	4,934	140,796	**145,730**

An analysis of the changes in the goodwill for the year ended 31 December 2015 is as follows:

	Goodwill
Cost	
Balance as at 1 January	**101,062**
Additions	419
Foreign currency translation difference	(5,487)
Impairment for the current period	–
Balance as at 31 December	**95,994**
Net book value	
Balance as at 1 January	**101,062**
Balance as at 31 December	**95,994**

Book value of the goodwill allocated to the appropriate cash generation units:

List of units	HUF mn
JSC "OTP Bank" (Russia)	36,451
DSK Bank EAD	28,541
OTP banka Hrvatska d.d.	18,177
OTP Bank Romania S.A.	6,222
Monicomp Ltd.	5,732
OTP Banka Slovensko a.s.	517
Other*	354
Total	**95,994**

Summary of the impairment test for the year ended 31 December 2015

Based on the valuations of the subsidiaries no goodwill impairment was needed on Group level as at 31 December 2015.

NOTE 12: INVESTMENT PROPERTY, INVESTMENT PROPERTY SUBJECT TO OPERATING LEASE (in HUF mn)

For the year ended 31 December 2016:

	Investment property	Investment property subject to operating lease	Total
Gross value			
Balance as at 1 January	**37,139**	**7,605**	**44,744**
Additions due to receiving from debtors for the receivables	1,951	–	1,951
Increase due to transfer from inventories or owner-occupied properties	286	–	286
Increase from purchase	54	130	184
Other additions	137	35	172
Disposal due to transfer to inventories or owner-occupied properties	(34)	–	(34)
Disposals due to transfer into the properties classified as held for sale	(959)	–	(959)
Other disposals	(858)	(218)	(1,076)
Foreign currency translation difference	(446)	25	(421)
Closing balance	**37,270**	**7,577**	**44,847**

The applied depreciation and amortization keys for the year ended 31 December 2016 were the following:

Investment property	1%–10%
Investment property subject to operating lease	1.82%–18.18%

* Other category includes: OTP Real Estate Leasing Ltd., Nimo 2002 Ltd., POK DSK-Rodina a.d.

	Investment property	Investment property subject to operating lease	Total
Depreciation and amortization			
Balance as at 1 January	**3,719**	**1,216**	**4,935**
Charge for the period	362	165	527
Increase due to transfer from inventories or owner-occupied properties	24	–	24
Disposal due to transfer to inventories or owner-occupied properties	(5)	–	(5)
Other disposals	(43)	(7)	(50)
Foreign currency translation difference	(26)	3	(23)
Closing balance	**4,031**	**1,377**	**5,408**
Impairment			
Balance as at 1 January	**7,965**	**1,525**	**9,490**
Impairment for the period	923	–	923
Release of impairment	(90)	–	(90)
Use of impairment	(223)	(29)	(252)
Foreign currency translation difference	(84)	6	(78)
Closing balance	**8,491**	**1,502**	**9,993**
Net values			
Balance as at 1 January	**25,455**	**4,864**	**30,319**
Balance as at 31 December	**24,748**	**4,698**	**29,446**
Fair values	**27,806**	**5,641**	**33,447**
Incomes and expenses			
Rental income	1,792	440	2,232
Direct operating expenses of investment properties – income generating	214	6	220
Direct operating expenses of investment properties – non income generating	16	–	16

For the year ended 31 December 2015:

	Investment property	Investment property subject to operating lease	Total
Gross value			
Balance as at 1 January	**34,723**	**10,246**	**44,969**
Additions from purchase	4,087	–	4,087
Additions due to receiving from debtors for the receivables	1,129	–	1,129
Other additions	126	–	126
Disposals due to transfer to inventories or owner-occupied properties	–	(2,616)	(2,616)
Disposals due to transfer to properties classified as held for sale	(440)	–	(440)
Other disposals	(1,407)	–	(1,407)
Foreign currency translation difference	(1,079)	(25)	(1,104)
Closing balance	**37,139**	**7,605**	**44,744**
Depreciation and amortization			
Balance as at 1 January	**3,401**	**2,013**	**5,414**
Charge for the period	366	297	663
Disposals due to transfer to inventories or owner-occupied properties	–	(1,092)	(1,092)
Other disposals for the period	(23)	–	(23)
Foreign currency translation difference	(25)	(2)	(27)
Closing balance	**3,719**	**1,216**	**4,935**
Impairment			
Balance as at 1 January	**7,900**	**1,140**	**9,040**
Impairment for the period	262	389	651
Release of impairment	(161)	–	(161)
Use of impairment	(1)	–	(1)
Foreign currency translation difference	(35)	(4)	(39)
Closing balance	**7,965**	**1,525**	**9,490**
Net values			
Balance as at 1 January	**23,422**	**7,093**	**30,515**
Balance as at 31 December	**25,455**	**4,864**	**30,319**
Fair values	**28,594**	**4,686**	**33,280**
Incomes and expenses			
Rental income	1,823	641	2,464
Direct operating expenses of investment properties – income generating	238	6	244
Direct operating expenses of investment properties – non income generating	194	–	194

NOTE 13: OTHER ASSETS* (in HUF mn)

	2016	2015
Inventories	53,772	46,195
Deferred tax receivables**	52,593	73,079
Prepayments and accrued income	33,118	25,136
Assets subject to operating lease	21,405	17,026
Receivables from card operations	16,572	7,865
Current income tax receivable	11,679	20,492
Trade receivables	11,369	10,891
Other advances	9,588	7,083
Fair value of derivative financial instrument designated as fair value hedge	7,887	16,009
Receivable from the National Asset Management	6,967	6,645
Receivables due from pension funds and investment funds	5,610	2,516
Other receivables from Hungarian Government	4,292	1,233
Receivables from investment services	4,244	6,369
Stock exchange deals	2,827	2,163
Loans sold under deferred payment scheme	2,276	2,410
Receivables from leasing activities	1,616	1,470
Advances for securities and investments	666	663
Other	34,914	34,338
Subtotal	**281,395**	**281,583**
Provision for impairment on other assets***	(28,073)	(27,992)
Total	**253,322**	**253,591**

Positive fair value of derivative financial instruments designated as fair value hedge:

	2016	2015
Interest rate swaps designated as fair value hedge	6,888	15,393
CCIRS and mark-to-market CCIRS designated as fair value hedge	998	604
Other transactions designated as fair value hedge	1	12
Total	**7,887**	**16,009**

An analysis of the movement in the provision for impairment on other assets is as follows:

	2016	2015
Balance as at 1 January	**27,992**	**23,862**
Provision for the period	1,476	6,529
Use of provision	(1,569)	(1,569)
Foreign currency translation difference	174	(830)
Closing balance	**28,073**	**27,992**

* Other assets – except income tax receivable and fair value of derivative financial instruments designated as fair value hedge – are expected to be recovered or settled no more than twelve months after the reporting period. Income tax receivable will be enforced in the tax return for the year 2016. Unrealised gains/losses on derivative financial instruments are recovering in accordance with their maturity.

** See Note 27.

*** Provision for impairment on trade receivables and on inventories was recognized the most impairment among the Provision for impairment on other assets.

NOTE 14: AMOUNTS DUE TO BANKS, THE HUNGARIAN GOVERNMENT, DEPOSITS FROM THE NATIONAL BANKS AND OTHER BANKS (in HUF mn)

	2016	2015
Within one year:		
In HUF	129,739	134,081
In foreign currency	126,361	115,423
	256,100	**249,504**
Over one year:		
In HUF	223,415	205,221
In foreign currency	63,720	78,015
	287,135	**283,236**
Accrued interest	540	570
Total*	**543,775**	**533,310**

Interest rates on amounts due to banks, the Hungarian Government, deposits from the National Banks and other banks are as follows:

	2016	2015
Within one year:		
In HUF	0.0%–0.9%	(1.0)%–3.6%
In foreign currency	(0.4)%–10.5%	0.01%–11.75%
Over one year:		
In HUF	0.0%–3.8%	0.0%–3.2%
In foreign currency	(0.06)%–10.85%	0.1%–17.0%
Average interest rates on amounts due to banks, the Hungarian Government, deposits from the National Banks and other banks denominated in HUF	1.41%	1.97%
Average interest rates on amounts due to banks, the Hungarian Government, deposits from the National Banks and other banks denominated in foreign currency	1.55%	1.54%

NOTE 15: DEPOSITS FROM CUSTOMERS (in HUF mn)

	2016	2015
Within one year:		
In HUF	3,725,744	3,565,248
In foreign currency	4,413,976	4,121,267
	8,139,720	**7,686,515**
Over one year:		
In HUF	308,199	169,177
In foreign currency	77,020	109,345
	385,219	**278,522**
Accrued interest	15,644	19,542
Total	**8,540,583**	**7,984,579**

Interest rates on deposits from customers are as follows:

	2016	2015
Within one year:		
In HUF	0.0%–9.65%	0.01%–4.0%
In foreign currency	0.0%–20.5%	0.01%–24.5%
Over one year:		
In HUF	0.0%–9.65%	0.01%–6.85%
In foreign currency	0.01%–22.0%	0.01%–20.5%
Average interest rates on deposits from customers denominated in HUF	0.43%	0.75%
Average interest rates on deposits from customers denominated in foreign currency	1.08%	1.95%

* It contains loans lent among the frame of Funding for Growth Scheme, which are accounted as government grant regulated by IAS 20 standard. See more details in Note 45.

An analysis of deposits from customers by type, without accrued interest liability, is as follows:

	2016		2015	
Retail deposits	6,112,174	72%	5,663,139	71%
Corporate deposits	1,946,298	23%	1,948,422	25%
Municipality deposits	466,467	5%	353,476	4%
Total	**8,524,939**	**100%**	**7,965,037**	**100%**

NOTE 16: LIABILITIES FROM ISSUED SECURITIES (in HUF mn)

	2016	2015
With original maturity		
Within one year:		
In HUF	18,498	18,388
In foreign currency	37,348	64,762
	55,846	**83,150**
Over one year:		
In HUF	88,640	146,011
In foreign currency	251	784
	88,891	**146,795**
Accrued interest	2,163	9,431
Total	**146,900**	**239,376**

Interest rates on liabilities from issued securities are as follows:

	2016	2015
Issued securities denominated in HUF	0.01%–9.5%	0.01%–10.0%
Issued securities denominated in foreign currency	0.1%–9.0%	0.52%–12.8%
Average interest rates on issued securities denominated in HUF	3.10%	3.21%
Average interest rates on issued securities denominated in foreign currency	1.07%	1.71%

Issued securities denominated in HUF as at 31 December 2016:

	Name	Date of issue	Maturity	Nominal value (in HUF mn)	Interest conditions (in % p.a.)		Hedged
1	OTP 2017/Ax	01/04/2011	31/03/2017	3,939	indexed	floating	hedged
2	OTP 2017/Bx	17/06/2011	20/06/2017	3,727	indexed	floating	hedged
3	OTP 2017/Cx	19/09/2011	25/09/2017	2,838	indexed	floating	hedged
4	OTP 2017/Dx	20/10/2011	19/10/2017	385	indexed	floating	hedged
5	OTP 2017/Ex	21/12/2011	28/12/2017	3,072	indexed	floating	hedged
6	OTP 2018/Ax	03/01/2012	09/01/2018	472	indexed	floating	hedged
7	OTP 2018/Bx	22/03/2012	22/03/2018	3,601	indexed	floating	hedged
8	OTP 2018/Cx	18/07/2012	18/07/2018	3,113	indexed	floating	hedged
9	OTP 2018/Dx	29/10/2012	26/10/2018	2,660	indexed	floating	hedged
10	OTP 2018/Ex	28/12/2012	28/12/2018	2,614	indexed	floating	hedged
11	OTP 2019/Ax	25/06/2009	01/07/2019	231	indexed	floating	hedged
12	OTP 2019/Bx	05/10/2009–05/02/2010	14/10/2019	343	indexed	floating	hedged
13	OTP 2019/Cx	14/12/2009	20/12/2019	285	indexed	floating	hedged
14	OTP 2019/Dx	22/03/2013	21/03/2019	3,845	indexed	floating	hedged
15	OTP 2019/Ex	28/06/2013	24/06/2019	3,063	indexed	floating	hedged
16	OTP 2020/Ax	25/03/2010	30/03/2020	316	indexed	floating	hedged
17	OTP 2020/Bx	28/06/2010	09/07/2020	305	indexed	floating	hedged
18	OTP 2020/Cx	11/11/2010	05/11/2020	195	indexed	floating	hedged
19	OTP 2020/Dx	16/12/2010	18/12/2020	207	indexed	floating	hedged
20	OTP 2020/Ex	18/06/2014	22/06/2020	3,686	indexed	floating	hedged
21	OTP 2020/Fx	10/10/2014	16/10/2020	3,257	indexed	floating	hedged
22	OTP 2020/Gx	15/12/2014	21/12/2020	2,753	indexed	floating	hedged
23	OTP 2021/Ax	01/04/2011	01/04/2021	256	indexed	floating	hedged
24	OTP 2021/Bx	17/06/2011	21/06/2021	284	indexed	floating	hedged
25	OTP 2021/Cx	19/09/2011	24/09/2021	277	indexed	floating	hedged
26	OTP 2021/Dx	21/12/2011	27/12/2021	338	indexed	floating	hedged
27	OTP 2022/Ax	22/03/2012	23/03/2022	252	indexed	floating	hedged
28	OTP 2022/Bx	18/07/2012	18/07/2022	230	indexed	floating	hedged
29	OTP 2022/Cx	29/10/2012	28/10/2022	246	indexed	floating	hedged
30	OTP 2022/Dx	28/12/2012	27/12/2022	305	indexed	floating	hedged
31	OTP 2023/Ax	22/03/2013	24/03/2023	371	indexed	floating	hedged
32	OTP 2023/Bx	28/06/2013	26/06/2023	265	indexed	floating	hedged
33	OTP 2024/Ax	18/06/2014	21/06/2024	256	indexed	floating	hedged
34	OTP 2024/Bx	10/10/2014	16/10/2024	365	indexed	floating	hedged
35	OTP 2024/Cx	15/12/2014	20/12/2024	299	indexed	floating	hedged
36	OTP 2020/RF/A	12/07/2010	20/07/2020	3,070	indexed	floating	hedged
37	OTP 2020/RF/B	12/07/2010	20/07/2020	1,417	indexed	floating	hedged
38	OTP 2020/RF/C	11/11/2010	05/11/2020	3,345	indexed	floating	hedged
39	OTP 2021/RF/A	05/07/2011	13/07/2021	2,946	indexed	floating	hedged
40	OTP 2021/RF/B	20/10/2011	25/10/2021	2,955	indexed	floating	hedged
41	OTP 2021/RF/C	21/12/2011	30/12/2021	586	indexed	floating	hedged
42	OTP 2021/RF/D	21/12/2011	30/12/2021	392	indexed	floating	hedged
43	OTP 2021/RF/E	21/12/2011	30/12/2021	61	indexed	floating	hedged
44	OTP 2022/RF/A	22/03/2012	23/03/2022	1,773	indexed	floating	hedged
45	OTP 2022/RF/B	22/03/2012	23/03/2022	565	indexed	floating	hedged
46	OTP 2022/RF/C	28/06/2012	28/06/2022	169	indexed	floating	hedged
47	OTP 2022/RF/D	28/06/2012	28/06/2022	218	indexed	floating	hedged
48	OTP 2022/RF/E	29/10/2012	31/10/2022	618	indexed	floating	hedged
49	OTP 2022/RF/F	28/12/2012	28/12/2022	341	indexed	floating	hedged
50	OTP 2023/RF/A	22/03/2013	24/03/2023	567	indexed	floating	hedged
51	OTP OJK 2017/I	27/01/2012–13/07/2012	27/01/2017	1	7	fixed	
52	OJB 2019/I	17/03/2004	18/03/2019	31,483	9.48	fixed	
53	OJB 2019/II	31/05/2011	18/03/2019	1,058	9.48	fixed	
54	OJB 2020/I	19/11/2004	12/11/2020	5,503	9	fixed	
55	OJB 2020/II	25/05/2011	12/11/2020	1,487	9	fixed	
56	OTP TBSZ6 2017/I	13/01/2012–22/06/2012	15/12/2017	223	6.5	fixed	
57	Other*			229			
	Subtotal issued securities in HUF			**107,658**			
	Unamortized premium			(5,909)			
	Fair value adjustment			5,389			
	Total issued securities in HUF			**107,138**			

* From the total amount HUF 3 million is mobil deposits of Merkantil Bank Ltd.

A devizában kibocsátott értékpapírok adatai As at 31 December 2016:

	Name	Date of issue	Maturity	Type of FX		Nominal value	Interest conditions (in % p.a.)		Hedged
1	OTP EUR 1 2016/XIII	30/12/2015	13/01/2017	EUR	25.32	7,876	0.5	fixed	
2	OTP EUR 1 2017/I	29/01/2016	12/02/2017	EUR	14.58	4,536	0.4	fixed	
3	OTP EUR 1 2017/II	12/02/2016	26/02/2017	EUR	4.35	1,354	0.4	fixed	
4	OTP EUR 1 2017/III	26/02/2016	12/03/2017	EUR	7.47	2,323	0.4	fixed	
5	OTP EUR 1 2017/IV	18/03/2016	01/04/2017	EUR	6.47	2,011	0.2	fixed	
6	OTP EUR 1 2017/V	15/04/2016	29/04/2017	EUR	8.59	2,673	0.2	fixed	
7	OTP EUR 1 2017/VI	27/05/2016	10/06/2017	EUR	11.67	3,629	0.1	fixed	
8	OTP EUR 1 2017/VII	10/06/2016	24/06/2017	EUR	3.62	1,126	0.1	fixed	
9	OTP EUR 1 2017/VIII	01/07/2016	15/07/2017	EUR	6.78	2,110	0.1	fixed	
10	OTP EUR 1 2017/IX	10/08/2016	24/08/2017	EUR	8.67	2,696	0.1	fixed	
11	OTP EUR 1 2017/X	16/09/2016	30/09/2017	EUR	4.45	1,385	0.1	fixed	
12	OTP 2017/Fx	19/06/2012	16/06/2017	EUR	0.78	243	indexed		hedged
13	OTP 2018/Fx	19/12/2013	21/12/2018	EUR	0.62	192	indexed		hedged
14	OTP_VK_USD_1_2017/I	29/01/2016	29/01/2017	USD	3.88	1,140	0.8	floating	
15	OTP_VK_USD_1_2017/II	18/03/2016	18/03/2017	USD	1.97	577	0.8	floating	
16	OTP_VK_USD_1_2017/III	27/05/2016	27/05/2017	USD	6.26	1,837	0.8	floating	
17	OTP_VK_USD_1_2017/IV	16/09/2016	16/09/2017	USD	1.45	427	0.8	fixed	
18	OTP_VK_USD_2_2017/I	10/04/2015	10/04/2017	USD	0.29	84	1.1	floating	
19	Other*					1,427			
	Subtotal issued securities in FX					**37,646**			
	Unamortized premium					(30)			
	Fair value adjustment					(17)			
	Total issued securities in FX					**37,599**			
	Accrued interest					**2,163**			
	Total issued securities					**146,900**			

Certain structured bonds are hedged by interest rate swaps ("IRS") which may transfer to a transferee a fixed rate and enter into an interest rate swap with the transferee to receive a fixed interest rate and pay a variable interest rate and amount of the structure if any based on a notional amount which is equal to the notional amount of the hedged bond. In certain cases amount of the structure is hedged by options which give the owner the right to get amount of the structure which is equal to the structure of the hedged bond. The hedge is highly effective if changes in fair value or cash-flows attributable to the hedged risk during the period for which the hedge is designated are within a range of 80–125 per cent.

The cash-flows of the fixed rate securities issued by the Bank are exposed to the change in the HUF/EUR foreign exchange rate and the risk of change in the quoted interest rates of EUR and HUF. The interest rate risk and foreign exchange risk related to these securities are hedged with EUR and HUF IRS transactions, where the fixed interests were swapped to payments linked to 3 month HUF BUBOR and EURIBOR, resulting a decrease in the interest rate and foreign exchange exposure of issued securities.

Term Note Program in the value of HUF 200 billion for the year of 2015/2016

On 30 June 2015 the Bank initiated term note program in the value of HUF 200 billion with the intention of issuing registered dematerialized bonds in public. The NBH approved on 12 August 2015 the prospectus of Term Note Program and the disclosure as at 14 August 2015. The prospectus is valid for 12 months following the disclosure. The Issuer can initiate to introduce the bonds issued under the program to the Hungarian, Slovakian, Romanian and Bulgarian Stock Exchange without any obligations.

* Other category includes promissory notes issued by OTP Banka Slovensko a.s. in the amount of HUF 359 million and by JSC "OTP Bank" (Russia) in the amount of HUF 1,068 million.

Term Note Program in the value of HUF 200 billion for the year of 2016/2017

On 5 July 2016 the Bank initiated term note program in the value of HUF 200 billion with the intention of issuing registered dematerialized bonds in public.

The NBH approved on 3 August 2016 the prospectus of Term Note Program and the disclosure as at 10 August. The prospectus is valid for 12 months following the disclosure. The Issuer can initiate to introduce the bonds issued under the program to the Hungarian, Slovakian, Romanian, Croatian and Bulgarian Stock Exchange without any obligations.

NOTE 17: FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS (in HUF mn)

Negative fair value of derivative financial instruments classified as held for trading by type of contracts:

	2016	2015
Interest rate swaps classified as held for trading	33,012	30,453
CCIRS and mark-to-market CCIRS classified as held for trading	15,684	55,875
Foreign exchange swaps classified as held for trading	13,125	7,687
Foreign exchange forward contracts classified as held for trading	5,941	3,551
Option contracts classified as held for trading	3,081	1,899
Forward rate agreements classified as held for trading (FRA)	38	29
Forward security agreements classified as held for trading	4	860
Other transactions classified as held for trading	4,986	1,207
Total	**75,871**	**101,561**

NOTE 18: OTHER LIABILITIES* (in HUF mn)

	2016	2015
Financial liabilities from OTP–MOL share swap transaction**	98,688	66,787
Liabilities from investment services	72,102	39,413
Provision for impairment on off-balance sheet commitments and contingent liabilities	48,166	31,685
Accrued expenses	39,885	33,153
Liabilities connected to Cafeteria benefits	31,194	27,811
Salaries and social security payable	28,235	25,423
Accounts payable	27,085	25,455
Liabilities from repo transactions	21,488	7,452
Fair value of derivative financial instruments designated as fair value hedge	20,002	13,723
Current income tax payable	16,066	13,684
Liabilities from card transactions	12,837	5,804
Clearing, settlement and pending accounts	9,269	12,065
Giro clearing accounts	7,153	11,302
Liabilities related to housing loans	6,496	1,523
Advances received from customers	6,429	4,271
Provision for expected losses due to CHF loans conversion at foreign subsidiaries	6,402	39,314
Deferred tax liabilities	3,234	4,610
Liabilities connected to loans for collection	814	876
Loans from government	716	683
Dividend payable	73	546
Liabilities connected to leasing activities	18	1,583
Other	45,012	24,159
Subtotal	**501,364**	**391,322**
Accrued interest	1,065	257
Total	**502,429**	**391,579**

The provision for losses on off-balance sheet commitments and contingent liabilities are detailed as follows:

	2016	2015
Provision for expected losses due to CHF loans conversion at foreign subsidiaries	6,402	39,314
Provision for litigation	15,067	6,680
Provision for losses on other off-balance sheet commitments and contingent liabilities related to lending	13,585	7,010
Provision for expected pension commitments	2,678	2,664
Provision for other liabilities	16,836	15,331
Total	**54,568**	**70,999**

* Other liabilities – except financial liabilities from OTP–MOL share swap transaction, deferred tax liabilities and fair value of derivative financial instruments designated as fair value hedge – are expected to be recovered or settled no more than twelve months after the reporting period. Unrealised gains/losses on OTP–MOL share swap transaction is settled in June of each year until the maturity date. The fair value adjustment of the swap transaction is HUF 67 million as at 31 December 2016. Unrealised gains/losses on derivative financial instruments is recovering in accordance with their maturity. Besides the total other liabilities mentioned above which are expected to be recovered or settled more than twelve months after the reporting period it should be mentioned accrued contractual liabilities, compulsory pension reserve, guarantee deposits in relation with leasing activities, loans from government and liabilities from preferential dividend shares.

** On 16 April 2009 OTP Bank Plc. and MOL Hungarian Oil and Gas Plc. entered into a 3 years share swap transaction. MOL obtained 24 million pieces of Bank's ordinary shares (8.57% of the ordinary shares) and OTP obtained approximately 5 million pieces of MOL shares. Both parties were granted by an American style call and put option to initiate the gross physical settlement of shares back to the issuer until 11 July 2012. On 11 July 2012 the parties amended the final maturity of the share swap agreement for 11 July 2017 until which any party can initiate cash or physical settlement of the transaction. There is no compulsory settlement of shares at the maturity of the swap agreement. The agreement contains additional settlement provisions in case of certain movement of relative share prices of the parties subject to net cash or net share settlement. Due to the loss of control over the Treasury shares, the Treasury shares were derecognized and MOL shares were recognized as held for trading securities. The written put option over OTP ordinary shares were accounted as a deduction from equity with the amount of HUF 55.5 billion and a recognition of a corresponding liability. As at 31 December 2016 and 2015 HUF 98,688 million and HUF 66,787 million liability was presented in other liabilities. The measurement is based on the fair value of MOL shares to be delivered at the potential exercise of the call and put options adjusted with the expected present value of the net cash or net share settlement due to certain movement of relative share prices.

The movements of provision for losses on off-balance sheet commitments and contingent liabilities can be summarized as follows:

	2016	2015
Balance as at 1 January	**70,999**	**217,351**
Release of provision for the period	(15,268)	(146,360)
Use of provision	(1,045)	(1,838)
Change due to acquisition	–	3,115
Foreign currency translation differences	(118)	(1,269)
Closing balance	**54,568**	**70,999**

The negative fair value of derivative financial instruments designated as fair value hedge by type of contracts:

	2016	2015
Interest rate swaps designated as fair value hedge	19,976	13,723
CCIRS and mark-to-market CCIRS designated as fair value hedge	26	–
Total	**20,002**	**13,723**

NOTE 19: SUBORDINATED BONDS AND LOANS (in HUF mn)

	2016	2015
Within one year:		
In HUF	–	–
In foreign currency	–	156,487
	–	**156,487**
Over one year:		
In HUF	–	–
In foreign currency	76,946	77,200
	76,946	**77,200**
Accrued interest	512	1,097
Total	**77,458**	**234,784**

Interest rates on subordinated bonds and loans are as follows:

	2016	2015
Denominated in foreign currency	2.69%	5.3%–5.9%
Average interest rates on subordinated bonds and loans	7.06%	4.72%

Subordinated bonds and loans can be detailed as follows:

Type	Nominal value	Date of issuance	Date of maturity	Issue price	Interest conditions
Subordinated bond	EUR 247.2 million	07/11/2006	Perpetual, but callable after 10 years	99.375%	Fixed 5.875% annual in the first 10 years (payable annually), three-month EURIBOR + 3%, variable after year 10 (payable quarterly)

NOTE 20: SHARE CAPITAL (in HUF mn)

	2016	2015
Authorized, issued and fully paid:		
Ordinary shares	28,000	28,000

NOTE 21: RETAINED EARNINGS AND RESERVES (in HUF mn)

The reserves of the Bank under Hungarian Accounting Standards (”HAS”) are as follows (the reserves under IFRS are detailed in consolidated statement of changes in equity):

	2016	2015
Capital reserve	52	52
General reserve	34,287	14,123
Retained earnings	857,019	856,990
Tied-up reserve	9,506	9,785
Total	**900,864**	**880,950**

The legal reserves (general reserve and tied-up reserve) are not available for distribution. The dividend has been determined on the basis of the net profit for the year determined in the separate financial statements in accordance with the HAS.

Capital reserve is the amount that the entity receives from the owners above the share capital without obligation to repay it. According to HAS general reserve can be established of profit after tax and in case of loss after tax general reserve shall be used up to amount of loss or general reserve. Retained earnings are cumulated sum of net profit or loss from previous years. Tied-up reserve contains cost of treasury shares and book value of experimental development reclassified from retained earnings in accordance with regulations of HAS.

These Financial Statements are subject to approval by the Board of Directors in the Annual General Meeting in April 2017. In 2016 the Bank paid dividend of HUF 46,200 million from the profit of the year 2015, which meant 165 HUF payable dividend by share to the shareholders. In 2017 dividend of HUF 53,200 million are expected to be proposed by the Management from the profit of the year 2016, which means 190 HUF payable dividends by share to the shareholders.

The retained earnings and reserves according to IFRS contains the retained earnings (HUF 514,417 million and HUF 480,058 million) and reserves (HUF 935,061 million and HUF 780,971 million) as at 31 December 2016 and 2015 respectively. The reserves include mainly net profit for the year attributable to the owners of the company, the fair value adjustment of securities available-for-sale, additional reserves of Income Certificates Exchangeable for Shares ("ICES"), changes in equity accumulated in the previous year at the subsidiaries, changes due to consolidation and exchange differences.

In the Consolidated Financial Statement the Group recognizes the non-monetary items on historical cost. The difference between the historical cost of the non-monetary items in forint amount and the translated foreign currencies into the presentation currency using the exchange rate at the balance sheet date, is presented among the shareholders' equity as difference of translation. The accumulated amounts of exchange differences were HUF 141,156 million and HUF 165,308 million as at 31 December 2016 and 2015 respectively.

On 19 October 2006, the Bank sold 14.5 million Treasury shares owned by the Group through an issue of ICES. Within the transaction 10 million shares owned by OTP, and further 4.5 million shares owned by OTP Group were sold during the underwriting period of ICES on the weighted average market price (HUF 7,080) of the Budapest Stock Exchange. The shares have been purchased by Opus Securities S.A. ("OPUS"), which issued an exchangeable bond with a total face value of EUR 514,274,000 backed by those shares. The exchangeable bonds have been sold at a 32% premium over the selling price of the shares. The EUR denominated exchangeable bonds are perpetual and the investors can exercise the conversion right between year 6 and 10. The bonds carry a fixed coupon of 3.95% during the first

10 years, thereafter the Issuer has the right to redeem the bonds at face value. Following the year 10, the bonds carry a coupon of 3 month EURIBOR +3%. OTP has discretional right to cancel the interest payments.

The interest payable is non-cumulative. Due to the conditions described above, ICES was accounted as an equity instrument and therefore any payment was accounted as equity distribution paid to ICES holders.

NOTE 22: TREASURY SHARES (in HUF mn)

	2016	2015
Nominal value (Ordinary shares)	1,822	1,814
Carrying value at acquisition cost	60,121	58,021

The changes in the carrying value of treasury shares are due to repurchase and sale transactions on market authorised by the General Assembly.

Change in number of shares	**2016**	**2015**
Number of shares as at 1 January	**18,142,973**	**18,175,347**
Additions	1,750,152	5,284,354
Disposals	(1,677,123)	(5,316,728)
Closing number of shares	**18,216,002**	**18,142,973**

Change in carrying value	**2016**	**2015**
Balance as at 1 January	**58,021**	**55,940**
Additions	11,982	26,721
Disposals	(9,882)	(24,640)
Closing balance	**60,121**	**58,021**

NOTE 23: NON-CONTROLLING INTEREST (in HUF mn)

	2016	2015
Balance as at 1 January	**2,651**	**3,349**
Non-controlling interest included in net profit for the year	242	(412)
Changes due to ownership structure	(8)	(18)
Foreign currency translation difference	407	(268)
Closing balance	**3,292**	**2,651**

NOTE 24: PROVISION FOR IMPAIRMENT ON LOAN AND PLACEMENT LOSSES (in HUF mn)

	2016	2015
Provision for impairment on loan losses		
Provision for the period	419,801	607,856
Release of provision	(358,545)	(332,171)
Provision for impairment on loan losses	32,349	43,004
	93,605	**318,689**
Release of provision on placement losses		
Provision for the period	46	3
Release of provision	–	–
Release of provision for impairment on placement losses	(178)	(9)
	(132)	**(6)**
Provision for impairment on loan and placement losses	**93,473**	**318,683**

NOTE 25: NET PROFIT FROM FEES AND COMMISSIONS (in HUF mn)

Income from fees and commissions:

	2016	2015
Deposit and account maintenance fees and commissions	114,404	111,280
Fees and commissions related to the issued bank cards	43,963	42,573
Fees related to cash withdrawal	27,920	27,706
Fees and commissions related to lending	20,715	17,277
Fees and commissions related to security trading	20,329	14,697
Fees and commissions related to fund management	18,865	18,184
Other	26,039	25,714
Total	**272,235**	**257,431**

Expense from fees and commissions:

	2016	2015
Fees and commissions related to issued bank cards	15,093	13,170
Fees and commissions paid on loans	9,641	7,070
Interchange fees	7,421	6,634
Fees and commissions related to deposits	3,449	2,596
Fees and commissions related to security trading	1,736	1,707
Cash withdrawal transaction fees	1,430	1,791
Fees and commissions related to collection of loans	959	1,660
Postal fees	889	1,017
Insurance fees	177	257
Money market transaction fees and commissions	128	1,101
Other	8,321	6,556
Total	**49,244**	**43,559**
Net profit from fees and commissions	**222,991**	**213,872**

NOTE 26: OTHER OPERATING INCOME AND EXPENSES AND OTHER ADMINISTRATIVE EXPENSES (in HUF mn)

Other operating income	2016	2015
Fine refund by Hungarian Competition Authority*	3,960	–
Gains on transactions related to property activities	1,923	1,724
Refund by the State of cancelled receivables from customer loans converted into HUF**	–	6,631
Other income from non-financial activities	13,745	14,618
Total	**19,628**	**22,973**

Other operating expenses	2016	2015
Expenses from losses due to foreign currency loan conversion at foreign subsidiaries	27,438	–
Provision for off-balance sheet commitments and contingent liabilities	18,034	10,387
Financial support for sport association and organization of public utility	8,731	13,918
Provision for impairment on other assets	2,249	6,696
Provision on investment properties	833	101
Provision for impairment on investments***	687	1,094
Fine imposed by Competition Authority	67	18
Release of provision on contingent liabilities due to regulations related to customer loans	–	(196,574)
(Incomes)/Expenses from regulations related to customer loans**	(5)	186,269
(Release of provision)/Provision for assets subject to operating lease	(31)	350
(Release of provision)/Provision for expected losses due to foreign currency loan conversion at foreign subsidiaries	(33,302)	39,827
Other	11,760	12,594
Total	**36,461**	**74,680**

* See details in Note 28.

** The amount is concerned for the Group. In 2016 the amount of the refund is deductible from special tax of financial institutions and financial transaction duty.

*** See details in Note 9.

Other administrative expenses	2016	2015
Personnel expenses		
Wages	138,785	137,250
Taxes related to personnel expenses	37,005	37,304
Other personnel expenses	15,652	13,252
Subtotal	**191,442**	**187,806**
Depreciation and amortization*	**44,427**	**45,463**

Other administrative expenses	2016	2015
Taxes, other than income tax**	92,380	110,102
Administration expenses, including rental fees	45,666	46,137
Services	45,551	44,400
Professional fees	22,823	20,344
Advertising	13,809	11,264
Subtotal	**220,229**	**232,247**
Total	**456,098**	**465,516**

NOTE 27: INCOME TAX (in HUF mn)

The Group is presently liable for income tax at rates between 9% and 35% of taxable income.

Deferred tax is calculated at the income tax rate of 9% in Hungary and Montenegro, 10% in Bulgaria, 12.5% in Cyprus, 15% in Serbia, 16% in Romania, 18% in Ukraine, 20% in Croatia and Russia, 22% in Slovakia, 25% in the Netherlands and 35% in Malta.

The breakdown of the income tax expense/(benefit) is:

	2016	2015
Current tax expense	12,562	11,624
Deferred tax expense/(benefit)	21,381	(14,771)
Total	**33,943**	**(3,147)**

A reconciliation of the net deferred tax asset/liability is as follows:

	2016	2015
Balance as at 1 January	**68,469**	**51,154**
Deferred tax (expense)/benefit	(21,381)	14,771
Deferred tax related to items recognized directly in equity and in Other Comprehensive Income	1,406	6,288
Foreign currency translation difference	865	(3,744)
Closing balance	**49,359**	**68,469**

* See details in Note 11.

** Special tax of financial institutions was paid by the Group in the amount of HUF 15.4 billion and HUF 35 billion for year 2016 and 2015 respectively, recognized as an expense thus decreased the corporate tax base. In the year ended 31 December 2016 financial transaction duty was paid by the Bank in the amount of HUF 47 billion.

A breakdown of the deferred tax assets are as follows:

	2016	2015
Unused tax allowance	22,354	19,014
Tax accrual caused by negative taxable income	20,494	43,265
Refundable tax in accordance with Acts on Customer Loans	5,239	6,341
Fair value adjustment of securities held for trading and securities available-for-sale	3,737	8,330
Premium and discount amortization on bonds	3,604	1,959
Provision for impairment on investments (Goodwill)	2,535	8,030
Repurchase agreement and security lending	1,964	4,102
Provision for off-balance sheet commitments and contingent liabilities, derivative financial instruments	1,497	2,582
Difference in reserves under HAS and IFRS	1,012	–
Adjustment from effective interest rate method	112	1,272
Fair value adjustment of derivative financial instruments	98	84
Difference in accounting for leases	50	160
Fair value corrections related to customer loans	28	80
Difference in depreciation and amortization	27	170
Other	12,555	14,373
Deferred tax asset	**75,306**	**109,762**

A breakdown of the deferred tax liabilities are as follows:

	2016	2015
Fair value adjustment of securities held for trading and securities available-for-sale	(9,414)	(16,506)
Provision for impairment on investments	(5,051)	–
Fair value adjustment of derivative financial instruments	(3,929)	(7,809)
Difference in depreciation and amortization	(2,448)	(4,971)
Temporary differences arising on consolidation	(1,122)	(2,988)
Adjustment from effective interest rate method	(909)	(4,258)
Net effect of treasury share transactions	(625)	(2,009)
Accounting of equity instrument (ICES)	(438)	(556)
OTP–MOL transaction	(423)	–
Provision for off-balance sheet commitments and contingent liabilities, derivative financial instruments	(406)	–
Difference in accounting for leases	(152)	(139)
Premium and discount amortization on bonds	(2)	(14)
Other	(1,028)	(2,043)
Deferred tax liabilities	**(25,947)**	**(41,293)**
Net deferred tax asset	**49,359**	**68,469**

A reconciliation of the income tax income/expense is as follows:

	2016	2015
Profit before income tax	236,395	60,024
Income tax expense at statutory tax rates	37,123	7,090

Income tax adjustments due to permanent differences are as follows:

	2016	2015
Differences in carrying value of subsidiaries	12,589	(16,039)
Effect of the tax rate change	3,356	–
Tax refund in accordance with Acts on Customer Loans	1,102	22,776
Share-based payment	671	724
OTP–MOL share swap transaction	411	(615)
Reversal of statutory general provision	287	–
Difference of accounting of equity instrument (ICES)	–	(9)
Revaluation of investments denominated in foreign currency to historical cost	–	(4,601)
Treasury share transactions	(991)	(1,729)
Deferred use of tax allowance	(5,843)	(11,028)
Use of tax allowance in the current year	(6,708)	–
Other	(8,054)	284
Income tax	**33,943**	**(3,147)**
Effective tax rate	**14.4%**	**(5.2%)**

Effective tax rate was negative because income tax and income tax adjustments are altogether negative in 2015.

NOTE 28: FINANCIAL RISK MANAGEMENT (in HUF mn)

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.
Financial instruments may result in certain risks to the Group. The most significant risks the Group faces include:

28.1 Credit risk

The Group takes on exposure to credit risk which is the risk that a counter-party will be unable to pay amounts in full when due.
The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or banks of borrowers, and to geographical areas and loan types. Such risks are monitored on a periodical basis and subject to an annual or more frequent review. The exposure to any borrower including banks and brokers is further restricted by sub-limits covering on and off-balance sheet exposures and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored daily.
Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and principal repayment obligations and by changing these lending limits when appropriate. Exposure to credit risk is managed by obtaining collateral, corporate and personal guarantees.

28.1.1 Analysis by loan types and by DPD categories

Classification into DPD categories

The Group presents the non-performing loan portfolio according delay of payment above 90 days past due. When determining the impairment beside the delay of payment other information available for the Group is also taking into consideration. The foreseeable risks and expected losses are considered, when the Group during determining the result of the current year, calculates and accounts impairment and credits provisions. The impairments and provisions are accounted notwithstanding whether the result recognized in the current year is gain or loss. The Group when calculates the impairment of the loans applies the requirement of IFRS and the principles defined in the impairment policy of the Group.

Exposures with small amounts are subject to **collective valuation** method, which is a simplified assessment. The exposures subject to collective valuation method are classified into five valuation groups which have been formed based on past due days from which there classes were presented (A: 0–90 days past due – DPD, B: 91–360 DPD, C: above 360 days past due). The three new groups do not match one by one to the earlier used risk classes, the composition of the classes has changed due to the different criteria.
The Group intends – where a great number of items and sufficient long-term historical data is available – to apply models on statistical bases. The impairment is calculated according to the possibility of listing the loan into default categories examined on the base of objective valuation criteria (delay of payment, change of exchange) and the expected recovery from the collecting. If the loss of the exposure can't be modelled reliably, the impairment is determined by expert keys.

Impairment on **claims above the limit** are under **individual assessment** method. Depending on the incurred loss of each item is determined based on the consideration of all of the following criteria:

- the credit rating of the customer or the partner: the financial position, stability and income-generating capacity affected by the financial or investment service and issuer of the security, and any changes thereto;

- compliance with the rules of repayment (delay): delays in the repayment of the loan principal and its interests, regularity of the fulfillment of payment obligations;
- the status of the restructuring (renegotiating) of risk taking contracts;
- the country risk relating to the customer (both political and transfer risks) and any changes thereto;
- the value of collaterals, their liquidity and accessibility, and any changes therein;
- the transferability and liquidity of the exposures (the market conditions of supply and demand, the available market prices and participation in the shareholders' equity of the issuer in proportion to the investment);
- the future payment obligation recognized as a loss arising from the exposure.

The expected future losses of the individually assessed item are determined by taking into considerations the above listed objective valuation aspects. The expected loss, the volume of the necessary reserve is defined by taking into account the value of the collaterals, comparing with the value of the collaterals relating to the exposure.
The expected recovery is calculated by applying the effective interest rate method and the discounted cash-flow method. The impairment accounted for the item before should be completed to this level by increasing the amount of the impairment or by releasing the provision accounted before.

An analysis of the gross loan portfolio by loan types and DPD categories is as follows:

As at 31 December 2016:

Loan type	Up to 90 days	91–360 days	Above 360 days	Total carrying amount/allowance
Mortgage loans	2,001,701	63,457	292,456	2,357,614
Loans to medium and large corporates	1,688,808	33,276	222,227	1,944,311
Consumer loans	1,292,146	51,274	177,056	1,520,476
Loans to micro and small enterprises	425,652	8,421	86,076	520,149
Car-finance loans	178,133	4,567	34,752	217,452
Municipal loans	73,707	139	16	73,862
Gross portfolio	**5,660,147**	**161,134**	**812,583**	**6,633,864**
Placement with other banks	363,441	–	23	363,464
Bill of exchange	5,890	–	–	5,890
Total gross portfolio	**6,029,478**	**161,134**	**812,606**	**7,003,218**
Allowance for loans	(174,304)	(87,777)	(682,192)	(944,273)
Allowance for placements	(72)	–	(23)	(95)
Total allowance	**(174,376)**	**(87,777)**	**(682,215)**	**(944,368)**
Total net portfolio	**5,855,102**	**73,357**	**130,391**	**6,058,850**
Accrued interest				
for loans				40,751
for placements				161
Total accrued interest				**40,912**
Total net loans				5,736,232
Total net placements				363,530
Total net exposures				**6,099,762**

As at 31 December 2015:

Loan type	Up to 90 days	91–360 days	Above 360 days	Total carrying amount/allowance
Mortgage loans	1,907,505	83,564	342,273	2,333,342
Loans to medium and large corporates	1,494,209	34,287	276,116	1,804,612
Consumer loans	1,215,742	75,731	137,921	1,429,394
Loans to micro and small enterprises	377,634	11,819	107,132	496,585
Car-finance loans	175,023	4,671	30,904	210,598
Municipal loans	93,134	74	53	93,261
Gross portfolio	**5,263,247**	**210,146**	**894,399**	**6,367,792**
Placement with other banks	300,503	–	52	300,555
Bill of exchange	5,882	–	–	5,882
Total gross portfolio	**5,569,632**	**210,146**	**894,451**	**6,674,229**
Allowance for loans	(181,302)	(129,033)	(703,285)	(1,013,620)
Allowance for placements	(3)	–	(47)	(50)
Total allowance	**(181,305)**	**(129,033)**	**(703,332)**	**(1,013,670)**
Total net portfolio	**5,388,327**	**81,113**	**191,119**	**5,660,559**
Accrued interest				
for loans				49,913
for placements				63
Total accrued interest				**49,976**
Total net loans				5,409,967
Total net placements				300,568
Total net exposures				**5,710,535**

The Group's loan portfolio increased by 4.93% in year 2016. Analysing the contribution of loan types to the loan portfolio, the share of the mortgage loan types slightly decreased, the loans to medium and large enterprises and consumer loans slightly increased, while the other types of loans remained almost the same as at 31 December 2016 comparing with end of the previous year. The qualification of the loan portfolio is improving continuously started from the last few years, and now for the end of the year 2016 the ratio of the more than 90 days past due to the above 360 days past due loans compared to the gross loan portfolio decreased from 16.6% to 13.9%. Among the qualified loan portfolio, the loans classified to the risk class of "more than 90 until 360 days past due" narrowed at the fastest level.

The Group has a prudent provisioning policy, the indicator which describes the coverage of loans by provision for impairment on loans classified as "Above 360 days", was 83.9% and 78.6% as at 31 December 2016 and 2015 respectively.

Not impaired loan portfolio

That part of loan portfolio, which are neither past due nor impaired, doesn't indicate any lowering of credit quality.

The loan portfolio analysis of the gross values of the loans that are not impaired, not past due and past due is as follows:

As at 31 December 2016:

Loan type	Not past due	Up to 90 days	91–360 days	Above 360 days	Total
Mortgage loans	1,712,019	257,440	1,301	2,681	1,973,441
Loans to medium and large corporates	1,419,308	68,528	144	179	1,488,159
Consumer loans	1,134,805	133,335	44	106	1,268,290
Loans to micro and small enterprises	367,396	40,727	15	131	408,269
Placement with other banks	363,440	–	–	–	363,440
Car-finance loans	146,633	19,854	–	–	166,487
Municipal loans	71,745	908	129	–	72,782
Total	**5,215,346**	**520,792**	**1,633**	**3,097**	**5,740,868**

As at 31 December 2015:

Loan type	Up to 90 days	91–360 days	Above 360 days	Total carrying amount/allowance	Total
Mortgage loans	1,615,942	265,692	1,084	1,487	1,884,205
Loans to medium and large corporates	1,204,462	25,952	461	3,939	1,234,814
Consumer loans	1,055,559	146,514	78	114	1,202,265
Loans to micro and small enterprises	340,979	22,815	58	1,192	365,044
Placement with other banks	300,502	–	–	6	300,508
Car-finance loans	143,808	31,095	2	7	174,912
Municipal loans	89,134	1,193	74	–	90,401
Total	**4,750,386**	**493,261**	**1,757**	**6,745**	**5,252,149**

Loans not past due or past due, but not impaired cover only balance sheet items. The ratio of the gross value of the loans neither past due nor impaired compared to the whole portfolio increased from 71.2% to 74.5% as at 31 December 2016 comparing to the end of the previous year. The ratio of the mortgage loans and municipal loans compared to the portfolio of loans neither past due nor impaired decreased slightly in year 2016, while the ratio of the loans to medium and large corporates increased mostly.

The loans that are past due but not impaired are concentrated mainly in the mortgage loan and consumer loan type while in the other loan types the low level of loans past due but not impaired is a consequence of the prudent provisioning policy of the Group. The ratio of the mortgage and consumer loans compared to the portfolio of loans past due but not impaired decreased slightly and the ratio of the loans to medium and large corporates increased as at 31 December 2016.

Loans individually assessed for provision

The individually rated exposures contain both the loans and the off-balance sheet commitments. The rating has been performed based on the factors used at determining the provision for impairment for them.

An analysis of financial assets that are individually determined to be impaired, the factors taken into consideration at the assessment, the provision for impairment for them and the collaterals considered as at 31 December 2016 and 31 December 2015 is as follows:

As at 31 December 2016:

Considered factors	Carrying value	Allowance for impairment	Collateral value	Off-balance sheet commitments	Provision for off-balance sheet commitments
Delay of payment	182,668	116,988	106,145	108	1
Legal proceedings	174,355	138,794	44,157	60	54
Decrease of client classification	95,583	47,384	59,774	5,003	278
Cross default	63,976	19,156	19,602	16,536	24
Country risk	24,724	13,723	6,913	–	–
Loan characteristics	22,222	4,647	15,207	–	–
Restructuring	10,724	5,984	3,918	–	–
Business lines risks	8,193	2,981	3,985	3,094	134
Regularity of payment	442	119	498	–	–
Other	14,479	4,479	11,326	2,273	785
Corporate total	**597,366**	**354,255**	**271,525**	**27,074**	**1,276**
Delay of payment	2,109	644	2,339	31	9
Legal proceedings	470	333	165	–	–
Cross default	52	1	–	–	–
Municipal total	**2,631**	**978**	**2,504**	**31**	**9**
Placements with other banks	**–**	**–**	**–**	**–**	**–**
Total	**599,997**	**355,233**	**274,029**	**27,105**	**1,285**

As at 31 December 2015:

Considered factors	Carrying value	Allowance for impairment	Collateral value	Off-balance sheet commitments	Provision for off-balance sheet commitments
Delay of payment	210,913	134,907	117,029	23	–
Legal proceedings	183,527	155,876	49,023	110	58
Decrease of client classification	108,640	44,791	79,469	1,884	292
Cross default	50,230	20,950	9,824	133	47
Country risk	53,284	27,153	15,416	–	–
Loan characteristics	54,682	9,780	35,618	–	–
Restructuring	7,537	5,385	3,994	–	–
Business lines risks	12,114	4,331	6,234	2,768	138
Regularity of payment	134	44	105	–	–
Other	15,512	5,205	14,140	2,889	384
Corporate total	**696,573**	**408,422**	**330,852**	**7,807**	**919**
Delay of payment	2,828	105	822	–	–
Legal proceedings	41	41	–	–	–
Municipal total	**2,869**	**146**	**822**	**–**	**–**
Placements with other banks	**–**	**–**	**–**	**–**	**–**
Total	**699,442**	**408,568**	**331,674**	**7,807**	**919**

By 31 December 2016 the volume of the individually rated portfolio decreased by 14.2% in the corporate loan type. Among the rating factors of the corporate loan type, the decrease is mostly based on the improving of the loan characteristic factor and on the softening of the country risk, while increase is based on the regularity of payment and restructuring as at 31 December 2016. The decrease was 8.3% at the individually rated loans in the municipal loan portfolio comparing with the end of the previous year, which is mostly based on the decrease of the delay of payment, although the legal proceeding increased but this rate wasn't so high to offset the improving municipal loan portfolio.

Transactions with high level of risk

Loans to customers are classified by using this category name if the clients are performing according to the contracts but the risks of the transactions are higher than usual (balloon payment, using loan to finance the monetary expenditures in the phase of investment).

Business lines risks

Transactions are classified by using this category name, if the client works in a business line which was most exposed to the financial crisis (vehicle industry, building industry, real estate services, metal processing, financial services).

Loan portfolio by countries

An analysis of the non-qualified and qualified gross loan portfolio in a country breakdown is as follows:

	2016		2015	
Country	Carrying amount of gross loan and placement with other banks portfolio	Allowance	Carrying amount of gross loan and placement with other banks portfolio	Allowance
Hungary	2,875,526	270,618	2,585,533	291,976
Bulgaria	1,218,526	144,240	1,226,958	165,843
Russia	594,064	116,850	448,751	90,683
Croatia	535,595	50,694	502,823	44,555
Romania	535,506	37,666	565,103	37,120
Ukraine	386,616	190,378	426,158	243,752
Slovakia	381,850	30,799	381,571	22,164
Montenegro	141,259	54,360	157,764	58,945
Serbia	131,512	26,418	135,040	31,858
United Kingdom	54,405	1,131	59,813	2,251
Germany	31,237	125	28,583	89
Cyprus	30,935	14,973	42,293	18,344
United States of America	13,931	32	12,990	36
Austria	11,148	4	22,489	3
Turkey	9,713	8	1,434	11
Italy	8,237	15	293	12
Australia	6,111	–	19	–
Seychelles	4,786	4,786	4,818	4,818
Belgium	4,773	40	23,896	23
Czech Republic	3,992	8	4,074	7
Poland	3,089	13	3,918	5
Norway	2,575	1	5,813	–
The Netherlands	1,981	97	1,774	84
Denmark	1,973	–	601	–
Switzerland	1,919	5	14,577	88
Canada	1,856	–	79	–
Bosnia and Herzegovina	899	756	865	708
Ireland	611	68	459	70
France	543	17	7,992	15
Sweden	427	10	290	10
Greece	257	30	160	22
Japan	232	–	405	–
United Arab Emirates	205	22	319	13
Kazakhstan	178	72	175	60
Spain	132	3	67	5
Egypt	87	6	87	6
Latvia	45	19	52	36
Island	41	28	41	28
Luxembourg	27	–	42	–
Other*	529	76	228	30
Total**	**6,997,328**	**944,368**	**6,668,347**	**1,013,670**

* Other category in year 2016 includes e.g.: Iran, Slovenia, Macedonia, Finland, Singapore, Armenia, Hong Kong, Syria, Portugal, Moldova, Jordan, China, India, Vietnam, Nigeria, Israel, Tunisia, Brazil, Morocco and South-Korea.

** Without the amount of bill of exchange.

The loan portfolio decreased mostly in Montenegro and Ukraine, while increased in Russia and Hungary but there were no significant changes in the other countries of Group members'. Their stock of provision increased mostly in Slovakia, Russia and Croatia, while decreased mostly in Ukraine, Serbia and Bulgaria due to the slightly decreased loan portfolio in some countries but there were no significant movements in none of the other countries.

In some countries the stock of provision increased due to local regulations on the base of which it is compulsory to account fix rate of provision on the non-qualified portfolio.

28.1.2 Collaterals

The values of collaterals held by the Group by types are as follows (total collaterals). The collaterals cover loans as well as off-balance sheet exposures.

Types of collaterals	2016	2015
Mortgages	6,572,927	5,694,831
Assignments (revenue or other receivables)	445,756	387,422
Guarantees and warranties	324,415	268,361
Securities	210,878	193,706
Cash deposits	102,668	73,245
Guarantees of state or organizations owned by state	73,225	103,498
Other	806,961	799,489
Total	**8,536,830**	**7,520,552**

The values of collaterals held by the Group by types are as follows **(to the extent of the exposures).** The collaterals cover loans as well as off-balance sheet exposures.

Types of collaterals	2016	2015
Mortgages	3,055,552	2,801,423
Assignments (revenue or other receivables)	343,305	320,728
Guarantees and warranties	198,468	172,853
Securities	169,716	155,886
Guarantees of state or organizations owned by state	62,449	92,216
Cash deposits	37,755	39,387
Other	486,732	455,688
Total	**4,353,977**	**4,038,181**

The coverage level of the loan portfolio (total collaterals) increased by 6.97%, as well as the coverage level to the extent of the exposures increased by 1.09% as at 31 December 2016.

28.1.3 Restructured loans

	2016		2015	
	Gross portfolio	**Allowance**	**Gross portfolio**	**Allowance**
Loans to medium and large corporates*	93,931	32,187	171,394	60,019
Retail loans	64,815	14,686	74,733	18,153
Loans to micro and small enterprises	13,589	2,008	11,134	1,570
Municipal loans	19	–	–	–
Total	**172,354**	**48,881**	**257,261**	**79,742**

* They include project and syndicated loans.

Restructured portfolio definition

Restructured portfolio for **retail business line** contains every loan which is relevant restructured and less than 91 days delinquent. Loan is considered as relevant restructured if:

- it was restructured in the last 12 months, or
- it was restructured more than 12 months ago, but the connected preferential period is not expired or expired in the last 12 months.

Hungarian FX mortgage loans in the fixed exchange rate scheme are not included.
In case of loans that have been restructured more than once the last restructuring is considered.

Restructured portfolio for **medium and large corporates/micro and small enterprises/ municipal business line** contains every loan which is relevant restructured and less than 91 days delinquent. Loan is considered as relevant restructured if:

- independently from the date of the restructuring the following restructuring tool was applied:
  – cancellation of principal outstanding (cancelled or partially cancelled principal receivables);
- it was restructured in the last 12 months or the loan was restructured more than 12 months ago, but the connected preferential period is not expired or expired in the last 12 months, and any of the following restructuring tools were applied:
  – cancellation of interest rate (final or temporary reduction of the interest margin, cancellation of due interest), or
  – restructuring of interest payments (postponement of the interest payment, capitalization of the interest), or
  – restructuring of principal repayment (partial or full postponement of repayment of a given instalment, rescheduling one or more instalments within the original term or with extension of the term simultaneously).

Other modifications of contract not mentioned above are not considered as restructuring (i.e. modifying the collateral structure, modification of the credit purpose).
In case of loans that have been restructured more than once the last restructuring is considered.

28.1.4 Financial instruments by rating categories*

Securities held for trading as at 31 December 2016:

	A1	A2	A3	Baa1	Baa2	Baa3	Ba1	Ba2	Not rated	Total
Shares	31	34	31	15	16	–	17	–	104,258	104,402
Government bonds	–	–	–	–	29,069	10,857	169	–	–	40,095
Interest bearing treasury bills	–	–	–	–	–	15,639	–	–	–	15,639
Discounted Treasury bills	–	–	–	–	–	97	–	–	–	97
Other securities	–	–	–	–	–	–	2,519	11,492	385	14,396
Other non-interest bearing securities	–	–	–	–	–	1,602	–	–	7,635	9,237
Total	**31**	**34**	**31**	**15**	**29,085**	**28,195**	**2,705**	**11,492**	**112,278**	**183,866**
Accrued interest										930
Total										**184,796**

* Moody's ratings.

Securities available-for-sale as at 31 December 2016:

	A1	A2	Baa2	Baa3	Ba1	Ba2	B1	C	Caa3	Not rated	Total
Government bonds	–	14,806	100,763	1,122,876	33,938	28,948	–	–	14,888	6,959	1,323,178
Corporate bonds	–	–	–	1,359	11,469	4,331	914	2	–	112,458	130,533
Discounted Treasury bills	–	–	–	12,320	–	8,624	–	–	–	–	20,944
Other securities	–	–	–	–	–	–	–	–	–	441	441
Other non-interest bearing securities	3,954	–	–	500	–	–	–	–	–	32,274	36,728
Total	**3,954**	**14,806**	**100,763**	**1,137,055**	**45,407**	**41,903**	**914**	**2**	**14,888**	**152,132**	**1,511,824**
Accrued interest											15,574
Total											**1,527,398**

Securities held-to-maturity as at 31 December 2016:

	A2	Baa2	Baa3	Ba1	B1	Caa3	Not rated	Total
Government bonds	22,302	4,349	1,012,642	–	27,235	28,184	1,185	1,095,897
Discounted Treasury bills	–	–	–	–	–	–	113	113
Mortgage bonds	–	–	–	52	–	–	–	52
Corporate bonds	–	–	–	–	–	–	5	5
Total	**22,302**	**4,349**	**1,012,642**	**52**	**27,235**	**28,184**	**1,303**	**1,096,067**
Accrued interest								18,960
Total								**1,115,027**

28.2 Market risk

The Group takes on exposure to market risks. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The Group applies a 'Value-at-Risk' (VaR) methodology to estimate the market risk of positions held and the maximum losses expected, based upon a number of assumptions for various changes in market conditions. The Management Board sets limits on the value of risk that may be accepted, which is monitored on a daily basis.
(Analysis of liquidity risk is, foreign currency risk and interest rate risk is detailed in Note 36, 37 and 38, respectively.)

28.2.1 Market Risk sensitivity analysis

The VaR risk measure estimates the potential loss in pre-tax profit over a given holding period for a specified confidence level.
The VaR methodology is a statistically defined, probability-based approach that takes into account market volatilities as well as risk diversification by recognizing offsetting positions and correlations between products and markets. Risks can be measured consistently across all markets and products, and risk measures can be aggregated to arrive at a single risk number. The one-day 99% VaR number used by the Group reflects the 99% probability that the daily loss will not exceed the reported VaR.

VaR methodologies are employed to calculate daily risk numbers include the historical and variance-covariance approach. In addition to these two methodologies, Monte Carlo simulations are applied to the various portfolios on a monthly basis to determine potential future exposure.

The VaR of the trading portfolio can be summarized as follows:

Historical VaR (99%, one-day) by risk type	Average (in HUF mn)	
	2016	2015
Foreign exchange	237	441
Interest rate	724	459
Equity instruments	2	3
Diversification	(213)	(215)
Total VaR exposure	**750**	**688**

The table above shows the VaR figures by asset classes. Since processes driving the value of the major asset classes are not independent (for example the depreciation of HUF against the EUR mostly coincide with the increase of the yields of Hungarian Government Bonds), a diversification impact emerges, so the overall VaR is less than the sum of the VaR of each individual asset classes.

While VaR captures the Group's daily exposure to currency and interest rate risk, sensitivity analysis evaluates the impact of a reasonably possible change in interest or foreign currency rates over a year. The longer time frame of sensitivity analysis complements VaR and helps the Group to assess its market risk exposures. Details of sensitivity analysis for foreign currency risk are set out in Note 28.2.2, for interest rate risk in Note 28.2.3, and for equity price sensitivity analysis in Note 28.2.4 below.

28.2.2 Foreign currency sensitivity analysis

The following table details the Group's sensitivity to an increase and decrease in the HUF exchange rate against the EUR and USD, over a 3 months period. Monte Carlo simulation is used when reporting foreign currency risk internally to key management personnel and represents Management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items as strategic open positions related to foreign activities.
The strategic open position related to the foreign operations was short, amounted to EUR 310 million (kept to hedge the currency risk of the expected FX-denominated net earnings of the main foreign subsidiaries) as at 31 December 2016. High portion of strategic positions is considered as effective hedge of the net investment in foreign subsidiaries – net investment hedge is applied at Group level –, and so FX risk affects the Group's other comprehensive income and not its earnings.

A positive number below indicates an increase in profit where the HUF strengthens against the EUR. For a weakening of the HUF against the EUR, there would be an equal and opposite impact on the profit, and the balances below would be negative.

Probability	Effects to the Consolidated Statement of Recognized Income in 3 months period in HUF billion	
	2016	2015
1%	(12.3)	(14.6)
5%	(8.4)	(10.0)
25%	(3.5)	(4.4)
50%	(0.3)	(0.5)
25%	2.7	3.1
5%	6.9	7.8
1%	9.8	10.9

Notes:

(1) The short-term loss on the strategic open position is compensated by the long-term exchange rate gain on the foreign operations.

(2) Monte Carlo simulation is based on the empirical distribution of the historical exchange rate movements between 2002 and 2016.

28.2.3 Interest rate sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for both derivatives and non-derivative instruments at the balance sheet date.
The analysis is prepared assuming the amount of assets and liabilities outstanding at the balance sheet date was outstanding for the whole year. The analysis was prepared by assuming only adverse interest rate changes.
The main assumptions were as follows:

- Floating rate assets and liabilities were repriced to the modelled benchmark yields at the repricing dates assuming the unchanged margin compared to the last repricing.
- Fixed rate assets and liabilities were repriced at the contractual maturity date.
- As for liabilities with discretionary repricing feature by the Bank were assumed to be repriced with two-weeks delay, assuming no change in the margin compared to the last repricing date.
- Assets and liabilities with an interest rate lower than 0.3% were assumed to be unchanged for the whole period.

The sensitivity of interest income to changes in BUBOR was analysed by assuming two interest rate path scenarios:

(1) HUF base rate stays unchanged and BUBOR decreases gradually to 0.2% (probable scenario)
(2) HUF base rate and BUBOR decreases gradually to 0% (alternative scenario)

The net interest income in a one year period after 31 December 2016 would be decreased by HUF 924 million (probable scenario) and HUF 3,416 million (alternative scenario) as a result of these simulation.
The same simulation indicated HUF 1,616 million (probable scenario) and HUF 3,874 million (alternative scenario) decrease in the Net interest income in a one year period after 31 December 2015.
This effect is counterbalanced by capital gains HUF 291 million (or probable scenario), HUF 648 million (for alternative scenario) as at 31 December 2016 and (HUF 291 million for probable scenario, HUF 1,109 million for alternative scenario) as at 31 December 2015 on the government bond portfolio held for hedging (economic).
Furthermore, the effects of an instant 10bps parallel shift of the HUF, EUR and USD yield-curves on net interest income over a one-year period and on the market value of the hedge government bond portfolio booked against capital was analysed. The results can be summarized as follows (in HUF million):

	2016		2015	
Description	**Effects to the net interest income (one-year period)**	**Effects to capital (Price change of available-for-sale government bonds)**	**Effects to the net interest income (one-year period)**	**Effects to capital (Price change of available-for-sale government bonds)**
HUF (0.1%) parallel shift	(1,383)	195	(588)	195
EUR (0.1%) parallel shift	(594)	–	(614)	–
USD (0.1%) parallel shift	(100)	–	(41)	–
Total	**(2,077)**	**195**	**(1,243)**	**195**

28.2.4 Equity price sensitivity analysis

The following table shows the effect of the equity price sensitivity. The Group uses VaR calculation with 1 day holding period and a 99% confidence level. The VaR methodology is a statistically defined, probability-based approach that takes into account market volatilities as well as risk diversification by recognizing offsetting positions and correlations between products and markets. The daily loss will not exceed the reported VaR number with 99% of probability.

The stress test assumes the largest price movement of the last year and calculates with it as the adverse direction. These scenarios show the loss of the portfolio when all prices change with the maximum amount of the last year.

Description	2016	2015
VaR (99%, one day, HUF million)	2	(3)
Stress test (HUF million)	(21)	(53)

28.2.5 Capital management

Capital management

The primary objective of the capital management of the Group is to ensure the prudent operation, the entire compliance with the prescriptions of the regulator for a persistent business operation and maximising the shareholder value, accompanied by an optimal financing structure.
The capital management of the Group members includes the management and evaluation of the shareholders' equity available for hedging risks, other types of funds to be recorded in the equity and all material risks to be covered by the capital.
The basis of the capital management of the Group members in the short run is the continuous monitoring of their capital position, in the long run the strategic and the business planning, which includes the monitoring and forecast of the capital position.
The Group members maintain the capital adequacy required by the regulatory bodies and the planned risk taking mainly by means of ensuring and developing their profitability. In case the planned risk level of a Group member exceeded its Core and the previously raised Supplementary capital, it ensures the prudent operation by occasional measures. A further tool in the capital management of the Bank is the dividend policy, and the transactions performed with the treasury shares.

Capital adequacy

The Capital Requirements Directive package (CRDIV/CRR) transposes the new global standards on banking regulation (known as the Basel III agreement) into the EU legal framework. The new rules are applied from 1 January 2014. They set stronger prudential requirements for institutions, requiring them to keep sufficient capital reserves and liquidity. This new framework makes institutions in the EU more solid and strengthens their capacity to adequately manage the risks linked to their activities, and absorb any losses they may incur in doing business.
The capital adequacy of the Group is supervised based on the financial statements data prepared in accordance with IFRS applying the current directives, rulings and indicators from 1 January 2014.

The Group has entirely complied with the regulatory capital requirements in year 2016 as well as in year 2015.

The Group uses the standard method for determining the regulatory capital requirements of the credit risk and market risk, and parallel to that, the base indicator method and the advanced method (AMA) in case of the operational risk.

For international comparison purposes, the Group calculated the Regulatory capital based on IFRS data, and the consolidated Capital adequacy ratio based on this in accordance with the regulations of Basel III. The Capital adequacy ratio of the Group (IFRS) was 16%, the Regulatory capital was HUF 1,079,064 million and the Total regulatory capital requirement was HUF 538,437 million as at 31 December 2016. The same ratios calculated as at 31 December 2015 were the following: 16.2%, HUF 1,064,383 million and HUF 526,101 million.

Calculation on IFRS basis	2016	2015
Core capital (Tier1) = Common Equity Tier 1 (CET1)	**911,328**	**873,124**
Issued capital	28,000	28,000
Reserves	1,239,177	1,230,035
Fair value corrections	44,265	28,125
Other capital components	(126,107)	**(152,808)**
Non-controlling interests	598	572
Treasury shares	(60,121)	(58,021)
Goodwill and other intangible assets	(164,343)	(158,370)
Other adjustments	(50,141)	(44,409)
Additional Tier1 (AT1)	–	–
Supplementary capital (Tier2)	**167,736**	**191,259**
Subordinated bonds and loans	77,458	99,054
Other issued capital components	89,935	92,092
Components recognized in T2 capital issued by subsidiaries	343	113
Regulatory capital*	**1,079,064**	**1,064,383**
Credit risk capital requirement	427,571	419,670
Market risk capital requirement	36,455	37,183
Operational risk capital requirement	74,411	69,248
Total requirement regulatory capital	**538,437**	**526,101**
Surplus capital	**540,627**	**538,282**
CET1 ratio	13.5%	13.3%
Tier1 ratio	13.5%	13.3%
Capital adequacy ratio	**16.0%**	**16.2%**

Basel III

The components of the Common Equity Tier1 capital (CET1) are the following: Issued capital, Reserves (Profit reserves, Other reserves, Changes in the equity of subsidiaries, Profit for the year, Changes due to consolidation) Fair value adjustments, Other capital components, (Revaluation reserves, Share based payments, Cash-flow hedges, Net investment hedge in foreign operations), Non-controlling interest, Treasury shares, Goodwill and other Intangible assets, other adjustments (due to prudential filters, due to deferred tax receivables, due to temporary regulations). Supplementary capital (Tier2): Subordinated loan capital, Supplementary loan capital, Other issued capital components, Components recognized in T2 capital issued by subsidiaries.

NOTE 29: OFF-BALANCE SHEET ITEMS AND DERIVATIVE FINANCIAL INSTRUMENTS (in HUF mn)

In the normal course of business, the Group becomes a party to various financial transactions that are not reflected on the Consolidated Statement of Financial Position and are referred to as off-balance sheet financial instruments. The following represent notional amounts of these off-balance sheet financial instruments, unless stated otherwise.

Contingent liabilities:

	2016	2015
Commitments to extend credit	1,234,450	1,166,386
Guarantees arising from banking activities	426,541	374,422
Legal disputes (disputed value)	13,053	54,732
Confirmed letters of credit	12,702	18,237
Other	302,362	283,819
Total	**1,989,108**	**1,897,596**

* The regulatory capital contains neither the unaudited profit for year 2016 nor the payable dividend from the result of 2016 and 2015 in accordance with 575/2013 EU regulation.

Legal disputes

At the balance sheet date the Group was involved in various claims and legal proceedings of a nature considered normal to its business. The level of these claims and legal proceedings corresponds to the level of claims and legal proceedings in previous years.

On 14 December 2016 the Bank announces that in the so-called "retail risk breakfast" case the Hungarian Competition Authority's decision – delivered on 19 November 2013 – imposing a fine of HUF 3.9 billion on the Bank, as well as the upholding first and second instance judgments were repealed by the judgment sentenced by the Curia after the judicial review trial on 12 December, 2016. Curia has accepted the Competition Authority's position related to the definability of the alleged infringements. In February 2017 the fine was refunded for the Bank.

The Group believes that the various asserted claims and litigations in which it is involved will not materially affect its financial position, future operating results or cash-flows, although no assurance can be given with respect to the ultimate outcome of any such claim or litigation. Provisions due to legal disputes were HUF 15,067 million and HUF 6,680 million as at 31 December 2016 and 2015, respectively (see Note 18).

Commitments to extend credit, guarantees and letters of credit

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans.

Documentary and commercial letters of credit, which are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct borrowing.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards.

Guarantees, irrevocable letters of credit and undrawn loan commitments are subject to similar credit risk monitoring and credit policies as utilised in the extension of loans. The Management of the Group believes the market risk associated with guarantees, irrevocable letters of credit and undrawn loan commitments are minimal.

Guarantees, payment undertakings arising from banking activities

Payment undertaking is a promise by the Group to assume responsibility for the debt obligation of a borrower if that borrower defaults until a determined amount, until a determined date, in case of fulfilling conditions, without checking the undermined transactions. The guarantee's liability is joint and primary with the principal, in case of payment undertaking, while the Group assumes the obligation derived from guarantee independently by the conditions established by the Group.
A guarantee is most typically required when the ability of the primary obligor or principal to perform its obligations under a contract is in question, or when there is some public or private interest which requires protection from the consequences of the principal's default or delinquency. A contract of guarantee is subject to the statute of frauds (or its equivalent local

laws) and is only enforceable if recorded in writing and signed by the surety and the principal. If the surety is required to pay or perform due to the principal's failure to do so, the law will usually give the surety a right of subrogation, allowing the surety to use the surety's contractual rights to recover the cost of making payment or performing on the principal's behalf, even in the absence of an express agreement to that effect between the surety and the principal.

Derivatives

The Group maintains strict control limits on net open derivative positions, i.e. the difference between purchase and sale contracts, by both amount and term. At any time the amount subject to credit risk is limited to the current fair value of instruments that are favourable to the Group (i.e. assets), which in relation to derivatives is only a small fraction of the contract or notional values used to express the volume of instruments outstanding. This credit risk exposure is managed as part of the overall lending limits with customers, together with potential exposures from market movements. Collateral or other security is not usually obtained for credit risk exposures on these instruments, except for trading with clients, where the Group in most of the cases requires margin deposits.

NOTE 30: SHARE-BASED PAYMENTS AND EMPLOYEE BENEFITS (in HUF mn)

The Bank Group Policy on Payments was accepted in resolution of Annual General Meeting regarding CRD IV. Directives and Act on Credit Institutions and Financial Enterprises.

Key management personnel affected by the Bank Group Policy receive compensation based on performance assessment generally in the form of cash bonus and equity shares in a ratio of 50–50%. Assignment is based on OTP shares, furthermore performance based payments are deferred in accordance with the rules of Credit Institutions Act.
The Bank ensures the share-based payment part for the management personnel of the Group members.
During implementation of the Remuneration Policy of the Group appeared that in case of certain foreign subsidiaries it is not possible to ensure the originally determined share-based payment because of legal reasons – incompatible with concerning EU-directives –, therefore a decision was made to cancel the share-based payment in referred countries.

Pieces of shares per capita, used for settlement of share-based quota as part of performance based payments, must be determined as quota of the total amount of share-based payments and price per share assessed by Supervisory Board.*
The price per share for determining pieces of shares is assessed by Supervisory Board based on the average of the three previous trade day's middle rate of the Bank's equity shares fixed on the Budapest Stock Exchange before the date of the decision made within ten days previous to performance based payment.
At the same time, factual conditions of discounted share-based payment are determined so, that discounted share-based payment shall contain maximum HUF 2,000 discount at the assessment date, and earnings for the shares at the payment date can be maximum HUF 4,000.

Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees or for the termination of employment. IAS 19 Employee Benefits shall be applied in accounting for all employee benefits, except those to which IFRS 2 Share-based Payment applies. In case of the jubilee benefits both standards contain regulations.

Short-term employee benefits are employee benefits (other than termination benefits) that

* Until the end of 2014 Board of Directors.

are expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related service. Post-employment benefits are employee benefits (other than termination and short-term employee benefits) that are payable after the completion of employment. Post-employment benefit plans are formal or informal arrangements under which an entity provides post-employment benefits for one or more employees. Post-employment benefit plans are classified as either defined contribution plans or defined benefit plans, depending on the economic substance of the plan as derived from its principal terms and conditions.

Termination benefits are employee benefits provided in exchange for the termination of an employee's employment as a result of either: an entity's decision to terminate an employee's employment before the normal retirement date or an employee's decision to accept an offer of benefits in exchange for the termination of employment. Other long-term employee benefits are all employee benefits other than short-term employee benefits, postemployment benefits and termination benefits.

The parameters for the share-based payment relating to the year 2010–2014 were determined by Board of Directors, and relating to years from 2015 by the Supervisory Board for periods of each year as follows:

	Share purchasing at a discounted price												
Year	Exercis price	Maximum earnings	Exercis price	Maximum earnings	Exercis price	Maximum earnings	Exercis price	Maximum earnings	Exercis price	Maximum earnings	Exercis price	Maximum earnings	Price of remuneration exchanged to share
	(HUF per share)												
	for the year 2010		for the year 2011		for the year 2012		for the year 2013		for the year 2014		for the year 2015		
2011	3,946	2,500	–	–	–	–	–	–	–	–	–	–	–
2012	3,946	3,000	1,370	3,000	–	–	–	–	–	–	–	–	–
2013	4,446	3,500	1,870	3,000	2,886	3,000	–	–	–	–	–	–	–
2014	4,946	3,500	1,870	4,000	2,886	3,000	2,522	2,500	–	–	–	–	–
2015	–	–	1,870	4,000	2,886	3,000	2,522	3,000	3,930	2,500	–	–	–
2016	–	–	–	–	2,886	3,500	2,522	3,500	3,930	3,000	4,892	2,500	6,892
2017	–	–	–	–	–	–	2,522	3,500	3,930	3,000	4,892	3,000	6,892
2018	–	–	–	–	–	–	–	–	3,930	3,000	4,892	3,000	6,892
2019	–	–	–	–	–	–	–	–	–	–	4,892	3,000	6,892

Based on parameters accepted by Board of Directors relating to the year 2010 effective pieces are follows as at 31 December 2016:

	Effective pieces	Approved pieces of shares	Exercised until 31 December 2016	Weighted average share price at the date of exercise (in HUF)	Expired pieces
Share purchasing period started in 2011	–	340,950	11,622	5,731	329,328
Share purchasing period started in 2012	–	735,722	714,791	4,593	20,931
Share purchasing period started in 2013	–	419,479	31,789	4,808	387,690
Share purchasing period started in 2014	–	497,451	495,720	5,838	1,731

Based on parameters accepted by Board of Directors relating to the year 2011 effective pieces are follows as at 31 December 2016:

	Effective pieces	Approved pieces of shares	Exercised until 31 December 2016	Weighted average share price at the date of exercise (in HUF)	Expired pieces
Share purchasing period started in 2012	–	471,240	464,753	3,758	6,487
Share purchasing period started in 2013	–	1,267,173	1,256,529	4,886	10,644
Share purchasing period started in 2014	–	609,137	609,137	4,799	–
Share purchasing period started in 2015	–	608,118	608,118	5,621	–

Based on parameters accepted by Board of Directors relating to the year 2012 effective pieces are follows as at 31 December 2016:

	Effective pieces	Approved pieces of shares	Exercised until 31 December 2016	Weighted average share price at the date of exercise (in HUF)	Expired pieces
Share purchasing period started in 2013	–	450,861	445,671	4,413	5,190
Share purchasing period started in 2014	–	1,156,631	1,151,890	4,982	4,741
Share purchasing period started in 2015	–	555,845	555,845	5,658	–
Share purchasing period started in 2016	1,221	581,377	580,156	6,568	–

Based on parameters accepted by Board of Directors relating to the year 2013 effective pieces are follows as at 31 December 2016:

	Effective pieces	Approved pieces of shares	Exercised until 31 December 2016	Weighted average share price at the date of exercise (in HUF)	Expired pieces
Share purchasing period started in 2014	–	406,044	404,263	4,369	1,781
Share purchasing period started in 2015	–	804,469	804,469	4,918	–
Share purchasing period started in 2016	37,808	393,750	355,942	6,588	–
Share purchasing period starting in 2017	549,909	–	–	–	–

Based on parameters accepted by Board of Directors relating to the year 2014 effective pieces are follows as at 31 December 2016:

	Effective pieces	Approved pieces of shares	Exercised until 31 December 2016	Weighted average share price at the date of exercise (in HUF)	Expired pieces
Share purchasing period started in 2015	–	176,459	176,459	5,828	–
Share purchasing period started in 2016	13,886	360,425	346,539	6,956	–
Share purchasing period starting in 2017	214,392	–	–	–	–
Share purchasing period starting in 2018	237,013	–	–	–	–

Based on parameters accepted by Supervisory Board relating to the year 2015 effective pieces are follows as at 31 December 2016:

	Effective pieces	Approved pieces of shares	Exercised until 31 December 2016	Weighted average share price at the date of exercise (in HUF)	Expired pieces
Share purchasing period started in 2016	–	152,247	152,247	7,373	–
Remuneration exchanged to share provided in 2016	–	10,947	10,947	6,509	–
Share purchasing period starting in 2017	305,613	–	–	–	–
Remuneration exchanged to share applying in 2017	21,490	–	–	–	–
Share purchasing period starting in 2018	166,321	–	–	–	–
Remuneration exchanged to share applying in 2018	9,543	–	–	–	–
Share purchasing period starting in 2019	204,585	–	–	–	–
Remuneration exchanged to share applying in 2019	10,671	–	–	–	–

Effective pieces relating to the periods starting in 2016–2019 settled during valuation of performance of year 2013–2015, can be modified based on risk assessment and personal changes.

In connection with shares given as a part of payments detailed in the Direction of Chief Executive about the Remuneration of Work in OTP Bank and the share-based compensation for Board of Directors detailed in 8/2013 resolution of Annual General Meeting and connecting compensation based on performance assessment accounted as equity-settled share based transactions, HUF 3,530 million was recognized as expense as at 31 December 2016.

NOTE 31: RELATED PARTY TRANSACTIONS (in HUF mn)

The compensation of key management personnel, such as the members of the Board of Directors, members of the Supervisory Board, key employees of the Bank and its major subsidiaries involved in the decision-making process in accordance with the compensation categories defined in IAS 24 Related Party Disclosures, is summarised below:

Compensations	2016	2015
Short-term employee benefits	9,207	6,227
Share-based payment	2,330	2,276
Other long-term employee benefits	497	532
Termination benefits	26	42
Total	**12,060**	**9,077**
Loans provided to companies owned by the Management (normal course of business)	49,383	25,734
Commitments to extend credit and guarantees	39,660	33,943
Credit lines of the members of Board of Directors and the Supervisory Board and their close family members (at normal market conditions)	326	340

	2016		2015	
Types of transactions	**Non-consolidated subsidiaries**	**Associated companies**	**Non-consolidated subsidiaries**	**Associated companies**
Loans provided	2,196	2,174	1,790	2,531
Client deposits	1,552	106	509	49
Net interest income on loan provided	20	80	36	122
Net fee incomes	39	–	41	–

The members of the Board of Directors, members of the Supervisory Board, chief executives and their close family members owned credit line "A" in the amount of HUF 173,9 million and HUF 168 million as at 31 December 2016 and 2015 respectively.

An analysis of credit limit related to MasterCard Gold is as follows:

	2016	2015
Members of Board of Directors and their close family members	30	24
Members of Supervisory Board	2	2
Chief executives	–	2

An analysis of credit limit related to Visa Card is as follows:

	2016	2015
Members of Board of Directors and their close family members	26	35

Member of Board of Directors and its family member owned AMEX Blue credit card loan in the amount of HUF 1.2 million and HUF 0.6 million as at 31 December 2016 and 2015, respectively.

Chief executives owned AMEX Gold credit card loan in the amount of HUF 3.5 million as at 31 December 2016 and 2015, respectively, while members of the Board of Directors and their close family members owned AMEX Gold credit card loan in the amount of HUF 5.9 million as at 31 December 2016.

The members of the Board of Directors, members of the Supervisory Board, chief executives and their close family members owned AMEX Platinum credit card loan in the amount of HUF 46.8 million and HUF 48.8 million, respectively as at 31 December 2016 and 2015.

Chief executives of the Bank owned Lombard loan in the amount of HUF 24.5 million and personal loans in the amount of HUF 10 million as at 31 December 2016.

An analysis of payment to chief executives of the Group related to their activity in Board of Directors and Supervisory Board is as follows:

	2016	2015
Members of Board of Directors	1,935	1,767
Members of Supervisory Board	168	144
Total	**2,103**	**1,911**

In the normal course of business, the Bank enters into other transactions with its subsidiaries, the amounts and volumes of which are not significant to these consolidated financial statements taken as a whole.

NOTE 32: ACQUISITION (in HUF mn)

a) Purchase and consolidation of subsidiaries

According to the announcement published on 3 February 2016, **AXA Bank Europe SA** and OTP signed an agreement on purchasing the business unit of AXA Bank Hungary. The purchase agreement includes the take-over of the retail credits and savings, as well as the corporate portfolio and the employees of AXA Bank, which meant 250 people. The retail-focused AXA Bank is presented in Hungary since 2009. AXA Bank has been offering innovative online customer services, and the bank has strong positions in the local mortgage market. After the completion of the purchase the Group's Hungarian mortgage portfolio increased with 18%.

Following the decision of the Hungarian Competition Authority, on 2 August 2016 the NBH has granted permission as well for the transfer of the Hungarian business unit – as defined in the business transfer agreement – of AXA Bank to the Bank. as at 31 October 2016 based on the business transfer agreement concluded on 2 February 2016 among AXA Bank Europe SA, the Hungarian Branch Office of AXA Bank Europe SA and the Bank, which transfer was completed as at 1 November 2016. Nearly, whole loan portfolio taken over consists of mortgage backed loans; HUF 162 billion performing and HUF 15 billion 90+ days past due mortgage backed loans in net value as at 1 November 2016. Book value of deposit portfolio taken over from AXA Bank was HUF 60 billion as at 31 December 2016; from that HUF 51 billion is in retail segment. The costs related to the taken-over of AXA Hungarian business unit was HUF 640 million in the fourth quarter of 2016 which included mainly personnel costs. Due to the transaction neither goodwill nor badwill was recognized.

On 30 July 2014 OTP Bank Romania S.A. agreed on purchasing 100% stake of **Banca Millennium S.A.** for EUR 39 million. The transaction was completed on 8 January 2015 and through the financial settlement OTP Bank Romania S.A. acquired 100% ownership in Banca Millennium S.A.

The fair value of the assets and liabilities acquired, and the related negative goodwill (gain from bargain purchase, which was reasoned by the market situation of the banking sector in the relevant countries) is as follows:

	Banca Millennium S.A.
Cash, amounts due from banks and balances with the National Banks	(16,933)
Placements with other banks, net of allowance for placement losses	(7,376)
Financial assets at fair value through profit or loss	(25)
Securities available-for-sale	(14,757)
Loans, net of allowance for loan losses	(117,893)
Associates and other investments	(2)
Securities held-to-maturity	(5,272)
Property and equipment	(2,205)
Intangible assets	(80)
Other assets	(4,999)
Amounts due to banks, the Hungarian Government, deposits from the National Banks and other banks	52,928
Deposits from customers	98,370
Liabilities from issued securities	–
Financial liabilities at fair value through profit or loss	–
Other liabilities	4,120
Subordinated bonds and loans	–
Net assets	**(14,124)**
Non-controlling interest	–
Negative goodwill	1,845
Cash consideration	**(12,279)**

b) Analysis of net outflow of cash in respect of purchase of subsidiaries

	2015
Cash consideration	(12,279)
Cash acquired	16,933
Net cash outflow	**4,654**

NOTE 33: SIGNIFICANT SUBSIDIARIES AND ASSOCIATES (in HUF mn)

Investments in companies in which the Bank has a significant interest are detailed below. They are fully consolidated companies and incorporated in Hungary unless otherwise stated. The Bank considers the subsidiaries as cash generating units.

Significant subsidiaries

Name	Ownership (Direct and Indirect)		Activity
	2016	2015	
Bank EAD (Bulgaria)	100.00%	100.00%	commercial banking services
OTP Bank JSC (Ukraine)	100.00%	100.00%	commercial banking services
JSC "OTP Bank" (Russia)	97.88%	97.87%	commercial banking services
OTP banka Hrvatska d.d. (Croatia)	100.00%	100.00%	commercial banking services
OTP Bank Romania S.A. (Romania)	100.00%	100.00%	commercial banking services
OTP banka Srbija a.d. (Serbia)	97.92%	97.92%	commercial banking services
OTP Banka Slovensko a.s. Slovakia)	99.26%	99.26%	commercial banking services
OTP Financing Malta Company Ltd. (Malta)	100.00%	100.00%	refinancing activities
OTP Factoring Ltd.	100.00%	100.00%	work-out
OTP Mortgage Bank Ltd.	100.00%	100.00%	mortgage lending
OTP Real Estate Ltd.	100.00%	100.00%	real estate management and development
Merkantil Bank Ltd.	100.00%	100.00%	finance lease
Merkantil Car Ltd.	100.00%	100.00%	finance lease
OTP Building Society Ltd.	100.00%	100.00%	housing savings and loan
OTP Fund Management Ltd.	100.00%	100.00%	fund management
R.E. Four d.o.o. (Serbia)	100.00%	100.00%	real estate management
Crnogorska komercijalna banka a.d. (Montenegro)	100.00%	100.00%	commercial banking services
OTP Financing Netherlands B.V. the Netherlands)	100.00%	100.00%	refinancing activities
OTP Holding Ltd. (Cyprus)	100.00%	100.00%	refinancing activities
OTP Financing Cyprus Ltd.	100.00%	100.00%	refinancing activities
Bank Center No. 1. Ltd.	100.00%	100.00%	real estate lease
Inga Kettő Ltd.	100.00%	100.00%	property management
OTP Funds Servicing and Consulting Ltd.	100.00%	100.00%	fund services
OTP Real Estate Leasing Ltd. (previously OTP Flat Lease Ltd.)	100.00%	100.00%	real estate leasing
OTP Life Annuity Ltd.	100.00%	100.00%	life annuity services

Significant associates and joint ventures*

Most significant indicators of associates and joint ventures which are accounted for using equity method (Szallas.hu and D-ÉG Thermoset Ltd.) or accounted on cost (Company for Cash Services Ltd. and Suzuki Pénzügyi Szolgáltató Ltd.) is as follows:

As at 31 December 2016:

	Szallas.hu Ltd.	D-ÉG Thermoset Ltd.	Company for Cash Services Ltd.	Suzuki Pénzügyi Szolgáltató Ltd.	Total
Total assets	1,148	4,862	2,302	579	**8,891**
Total liabilities	543	4,004	103	–	**4,650**
Shareholders' equity	605	858	2,199	579	**4,241**
Total revenues	2,647	4,399	1,152	2	**8,200**

As at 31 December 2015:

	Szallas.hu Ltd.	D-ÉG Thermoset Ltd.	Company for Cash Services Ltd.	Suzuki Pénzügyi Szolgáltató Ltd.	Total
Total assets	722	5,356	2,296	584	**8,958**
Total liabilities	296	4,090	110	2	**4,498**
Shareholders' equity	426	1,266	2,186	582	**4,460**
Total revenues	1,891	6,736	1,192	17	**9,836**

NOTE 34: TRUST ACTIVITIES (in HUF mn)

The Bank acts as a trustee for certain loans granted by companies or employers to their employees, mainly for housing purposes. The ultimate risk for these loans rests with the party advancing the funds. As these loans and related funds are not considered to be assets or liabilities of the Group, they have been excluded from the accompanying Consolidated Statement of Financial Position.

	2016	2015
The amount of loans managed by the Group as a trustee	35,383	37,554

NOTE 35: CONCENTRATION OF ASSETS AND LIABILITIES

In the percentage of the total assets	2016	2015
Receivables from, or securities issued by the Hungarian Government or the NBH	22.9%	28.2%

There were no other significant concentrations of the assets or liabilities of the Group as at 31 December 2016 or 2015.

The Group continuously provides the Authority with reports on the extent of dependency on large depositors as well as the exposure of the biggest 50 depositors towards the Group.

Further to this obligatory reporting to the Authority, the Group pays particular attention on the exposure of its largest partners and cares for maintaining a closer relationship with these partners in order to secure the stability of the level of deposits.

The organisational unit of the Group in charge of partner-risk management analyses the biggest partners on a constant basis and sets limits on the Bank's and the Group's exposure separately partner-by-partner. If necessary, it modifies partner-limits in due course thereby reducing the room for manoeuvring of the Treasury and other business areas.

* Based on unaudited financial statements.

NOTE 36: MATURITY ANALYSIS OF ASSETS, LIABILITIES AND LIQUIDITY RISK (in HUF mn)

Liquidity risk is a measure of the extent to which the Group may be required to raise funds to meet its commitments associated with financial instruments. The Group maintains its liquidity profiles in accordance with regulations prescribed by the NBH.

The essential of the liquidity risk management strategy is to identify all relevant systemic and idiosyncratic sources of liquidity risk and to measure the probability and severity of such events. During liquidity risk management the Group considers the effect of liquidity risk events caused by reasons arising in the bank business line (deposit withdrawal), the national economy (exchange rate shock yield curve shock) and the global financial system (capital market shock).

In line with the Group's risk management policy liquidity risks are measured and managed on multiply hierarchy levels and applying integrated unified VaR based methodology. The basic requirement is that the Group must keep high quality liquidity reserves by means it can fulfill all liabilities when they fall due without material additional costs.

The liquidity reserves can be divided to two parts. There are separate decentralized liquid asset portfolios at subsidiary level and a centralized flexible liquidity pool at Group's level. The reserves at subsidiary levels are held to cover the relevant shocks of the subsidiaries which may arise in local currencies (deposit withdrawal, local capital market shock, unexpected business expansion), while the centralized liquidity pool is held to cover the Bank's separate shocks (deposit-, yield curve- and exchange rate shocks) and all group member's potential shocks that may arise in foreign currencies (deposit withdrawal, capital market shock).

The recalculation of shocks is made at least quarterly while the recalibration of shock measurement models and review of the risk management methodology is an annual process. The monitoring of liquidity reserves for both centralized and decentralized liquid asset portfolio has been built in the daily reporting process.

Due to the balance sheet adjustment process (deleveraging) experienced in the last few years, the liquidity reserves of the Group increased significantly while the liquidity risk exposure has decreased considerably. Currently the (over)coverage of risk liquidity risk exposure by high quality liquid assets is in all-time record highs. In year 2016 there were no material changes in liquidity risk management process.

The contractual amounts disclosed in the maturity analyses are the contractual undiscounted cash-flows like gross finance lease obligations (before deducting finance charges); prices specified in forward agreements to purchase financial assets for cash; net amounts for pay-floating/receive-fixed interest rate swaps for which net cash-flows are exchanged; contractual amounts to be exchanged in a derivative financial instrument for which gross cash-flows are exchanged; gross loan commitments.
Such undiscounted cash-flows differ from the amount included in the statement of financial position because the amount in that statement is based on discounted cash-flows. When the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the end of the reporting period. For example, when the amount payable varies with changes in an index, the amount disclosed may be based on the level of the index at the end of the period.

The following tables provide an analysis of assets and liabilities about the non-discounted cash-flow into relevant maturity groupings based on the remaining period from the balance sheet date to the contractual maturity date. It is presented under the most prudent consideration of maturity dates where options or repayment schedules allow for early repayment possibilities.

As at 31 December 2016:

	Within 3 months	Within one year and over 3 months	Within 5 years and over one year	Over 5 years	Without maturity	Total
Cash, amounts due from banks and balances with the National Banks	1,229,096	396,261	–	–	–	1,625,357
Placements with other banks, net of allowance for placement losses	280,215	29,213	52,133	15,431	228	377,220
Securities held for trading	13,545	22,445	24,416	11,782	90,167	162,355
Securities available-for-sale	56,516	104,970	1,001,181	256,265	30,292	1,449,224
Loans, net of allowance for loan losses	1,025,865	889,362	1,836,910	2,497,755	468	6,250,360
Associates and other investments	–	–	–	–	9,836	9,836
Securities held-to-maturity	57,025	65,146	362,898	582,257	–	1,067,326
Property, equipment and intangible assets	444	1,780	10,887	9,844	332,561	355,516
Investment property, investment property subject to operating lease	4,200	–	9,187	6,190	9,869	29,446
Other assets*	570	2,382	16,824	1,567	–	21,343
TOTAL ASSETS	**2,667,476**	**1,511,559**	**3,314,436**	**3,381,091**	**473,421**	**11,347,983**
Amounts due to banks, the Hungarian Government, deposits from the National Banks and other banks	159,624	54,276	176,214	154,507	–	544,621
Deposits from customers	6,878,058	1,385,744	222,739	67,052	–	8,553,593
Liabilities from issued securities	24,586	29,374	86,613	6,958	–	147,531
Other liabilities*	324,404	31,697	16,440	8,340	2,582	383,463
Subordinated bonds and loans**	353	164	1	–	76,945	77,463
TOTAL LIABILITIES	**7,387,025**	**1,501,255**	**502,007**	**236,857**	**79,527**	**9,706,671**
NET POSITION	**(4,719,549)**	**10,304**	**2,812,429**	**3,144,234**	**393,894**	**1,641,312**
Receivables from derivative financial instruments classified as held for trading	2,320,707	547,029	154,793	20,451	–	3,042,980
Liabilities from derivative financial instruments classified as held for trading	(2,306,574)	(539,463)	(143,258)	(23,499)	–	(3,012,794)
Net position of financial instruments classified as held for trading	**14,133**	**7,566**	**11,535**	**(3,048)**	**–**	**30,186**
Receivables from derivative financial instruments designated as fair value hedge	7,795	1,732	73,499	4,442	–	87,468
Liabilities from derivative financial instruments designated as fair value hedge	(6,687)	(205)	(98,096)	(4,233)	–	(109,221)
Net position of financial instruments designated as fair value hedge	1,108	1,527	(24,597)	209	–	(21,753)
Net position of derivative financial instruments total	**15,241**	**9,093**	**(13,062)**	**(2,839)**	**–**	**8,433**
Commitments to extend credit	410,141	589,593	188,911	45,689	116	1,234,450
Bank guarantees	145,896	114,319	59,638	104,974	1,714	426,541
Off-balance sheet commitments	**556,037**	**703,912**	**248,549**	**150,663**	**1,830**	**1,660,991**

* Without derivative financial instruments.
** See Note 19.

As at 31 December 2015:

	Within 3 months	Within one year and over 3 months	Within 5 years and over one year	Over 5 years	Without maturity	Total
Cash, amounts due from banks and balances with the National Banks	1,878,888	72	–	–	–	1,878,960
Placements with other banks, net of allowance for placement losses	291,888	7,489	1,022	178	317	300,894
Securities held-for-trading	4,718	6,042	15,929	8,565	86,083	121,337
Securities available-for-sale	7,854	95,051	925,349	194,913	38,966	1,262,133
Loans, net of allowance for loan losses	678,509	882,873	1,819,370	2,480,019	16,601	5,877,372
Associates and other investments	–	–	–	–	10,028	10,028
Securities held-to-maturity	59,171	84,297	407,096	412,147	–	962,711
Property, equipment and intangible assets	2,203	2,466	9,503	4,256	331,042	349,470
Investment property, investment property subject to operating lease	50	916	10,359	12,970	6,147	30,442
Other assets*	122,663	39,229	66,259	442	8,954	237,547
TOTAL ASSETS	**3,045,944**	**1,118,435**	**3,254,887**	**3,113,490**	**498,138**	**11,030,894**
Amounts due to banks, the Hungarian Government, deposits from the National Banks and other banks	171,469	57,073	168,058	157,092	–	553,692
Deposits from customers	6,615,990	1,107,398	242,363	40,337	1	8,006,089
Liabilities from issued securities	42,910	60,197	105,590	34,370	–	243,067
Other liabilities*	296,857	82,815	3,395	8,785	9,302	401,154
Subordinated bonds and loans**	1,817	127,336	9,292	8,439	110,566	257,450
TOTAL LIABILITIES	**7,129,043**	**1,434,819**	**528,698**	**249,023**	**119,869**	**9,461,452**
NET POSITION	**(4,083,099)**	**(316,384)**	**2,726,189**	**2,864,467**	**378,269**	**1,569,442**
Receivables from derivative financial instruments classified as held for trading	1,983,024	983,886	396,165	21,157	–	3,384,232
Liabilities from derivative financial instruments classified as held for trading	(1,972,569)	(978,896)	(372,370)	(21,240)	–	(3,345,075)
Net position of financial instruments classified as held for trading	**10,455**	**4,990**	**23,795**	**(83)**	**–**	**39,157**
Receivables from derivative financial instruments designated as fair value hedge	5,604	926	90,703	3,074	–	100,307
Liabilities from derivative financial instruments designated as fair value hedge	(5,554)	(368)	(102,437)	(882)	–	(109,241)
Net position of financial instruments designated as fair value hedge	50	558	(11,734)	2,192	–	(8,934)
Net position of derivative financial instruments total	**10,505**	**5,548**	**12,061**	**2,109**	**–**	**30,223**
Commitments to extend credit	347,477	562,694	241,577	14,638	–	1,166,386
Bank guarantees	74,107	79,463	123,525	96,792	535	374,422
Off-balance sheet commitments	**421,584**	**642,157**	**365,102**	**111,430**	**535**	**1,540,808**

* Without derivative financial instruments.
** See Note 19.

NOTE 37: NET FOREIGN CURRENCY POSITION AND FOREIGN CURRENCY RISK (in HUF mn)

As at 31 December 2016:

	USD	EUR	CHF	Others	Total
Assets	294,327	2,162,945	46,261	2,778,704	5,282,237
Liabilities	(504,644)	(1,652,058)	(37,597)	(2,355,397)	(4,549,696)
Off-balance sheet assets and liabilities, net	221,409	174,524	(17,096)	(344,752)	34,085
Net position	**11,092**	**685,411**	**(8,432)**	**78,555**	**766,626**

As at 31 December 2015:

	USD	EUR	CHF	Others	Total
Assets	391,278	1,532,788	182,303	2,299,124	4,405,493
Liabilities	(573,631)	(1,750,994)	(62,898)	(2,123,107)	(4,510,630)
Off-balance sheet assets and liabilities, net	159,599	552,473	(59,785)	182,171	834,458
Net position	**(22,754)**	**334,267**	**59,620**	**358,188**	**729,321**

The table above provides an analysis of the main foreign currency exposures of the Group. The remaining foreign currencies are shown within 'Others'. 'Others' category contains mainly foreign currencies in RON, RSD, HRK, UAH, RUB and BGN. Whilst the Group monitors its foreign exchange position for compliance with the regulatory requirements of the National Banks and own limit system established in respect of limits on open positions. The measurement of the open foreign currency position of the Group involves monitoring the "VaR" limit on the foreign exchange exposure of the Group.

NOTE 38: INTEREST RATE RISK MANAGEMENT (in HUF mn)

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The length of time for which the rate of interest is fixed on a financial instrument, therefore, indicates to what extent it is exposed to interest rate risk.

The majority of the interest bearing assets and liabilities of the Group are structured to match either short-term assets and short-term liabilities, or long-term assets and liabilities with repricing opportunities within one year, or long-term assets and corresponding liabilities where repricing is performed simultaneously.

In addition, the significant spread existing between the different types of interest bearing assets and liabilities enables the Group to benefit from a high level of flexibility in adjusting for its interest rate matching and interest rate risk exposure.

The following table presents the interest repricing dates of the Group. Variable yield assets and liabilities have been reported in accordance with their next repricing date. Fixed income assets and liabilities have been reported in accordance with their maturity.

As at 31 December 2016:

	Within 1 month		Over 1 month and Within 3 months		Over 3 months and Within 12 months		Over 1 year and Within 2 years		Over 2 years		Non-interest-bearing		Total		Total
	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	
ASSETS															
Cash, amounts due from banks and balances with the National Banks	**501,289**	**530,368**	**185**	**262**	**–**	**80**	**–**	**–**	**–**	**–**	**89,422**	**503,751**	**590,896**	**1,034,461**	**1,625,357**
fixed rate	500,465	443,693	9	174	–	80	–	–	–	–	–	–	500,474	443,947	944,421
variable rate	824	86,675	176	88	–	–	–	–	–	–	–	–	1,000	86,763	87,763
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	89,422	503,751	89,422	503,751	593,173
Placements with other banks, net of allowance for placements losses	**45,212**	**221,870**	**13,356**	**21,503**	**5**	**23,361**	**515**	**–**	**428**	**797**	**1,532**	**34,951**	**61,048**	**302,482**	**363,530**
fixed rate	41,410	119,703	2,265	16,124	5	9,676	515	–	428	400	–	–	44,623	145,903	190,526
variable rate	3,802	102,167	11,091	5,379	–	13,685	–	–	–	397	–	–	14,893	121,628	136,521
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	1,532	34,951	1,532	34,951	36,483
Securities held for trading	**6,224**	**916**	**6,634**	**2,213**	**11,757**	**13,311**	**119**	**12,187**	**5,235**	**15,431**	**106,591**	**4,178**	**136,560**	**48,236**	**184,796**
fixed rate	2,419	916	6,167	2,213	7,268	13,311	119	12,187	5,235	15,431	–	–	21,208	44,058	65,266
variable rate	3,805	–	467	–	4,489	–	–	–	–	–	–	–	8,761	–	8,761
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	106,591	4,178	106,591	4,178	110,769
Securities available-for-sale	**22,867**	**29,448**	**17,896**	**44,262**	**84,337**	**81,962**	**330,032**	**29,066**	**555,385**	**279,939**	**23,375**	**28,524**	**1,033,892**	**493,201**	**1,527,093**
fixed rate	–	23,320	1,772	14,040	84,337	81,960	330,032	29,066	555,385	279,939	–	–	971,526	428,325	1,399,851
variable rate	22,867	6,128	16,124	30,222	–	2	–	–	–	–	–	–	38,991	36,352	75,343
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	23,375	28,524	23,375	28,524	51,899
Loans, net of allowance for loan losses	**550,597**	**1,796,652**	**713,311**	**746,620**	**314,546**	**266,373**	**221,238**	**140,765**	**478,810**	**323,363**	**89,765**	**94,192**	**2,368,267**	**3,367,965**	**5,736,232**
fixed rate	26,310	296,834	46,718	66,807	63,103	186,381	67,008	124,752	166,910	299,293	–	–	370,049	974,067	1,344,116
variable rate	524,287	1,499,818	666,593	679,813	251,443	79,992	154,230	16,013	311,900	24,070	–	–	1,908,453	2,299,706	4,208,159
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	89,765	94,192	89,765	94,192	183,957
Securities held-to-maturity	**–**	**28,815**	**25,292**	**3,976**	**220,251**	**3,548**	**59,501**	**4,805**	**693,487**	**58,954**	**15,513**	**85**	**1,014,044**	**100,183**	**1,114,227**
fixed rate	–	28,184	25,292	3,976	220,251	3,534	59,501	4,805	693,487	58,954	–	–	998,531	99,453	1,097,984
variable rate	–	631	–	–	–	14	–	–	–	–	–	–	–	645	645
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	15,513	85	15,513	85	15,598
Derivative financial instruments	**440,563**	**790,425**	**533,092**	**178,159**	**197,260**	**86,216**	**25,585**	**140,406**	**32,478**	**35,595**	**485,787**	**356,806**	**1,714,765**	**1,587,607**	**3,302,372**
fixed rate	425,320	435,181	261,919	111,266	195,702	72,817	25,585	140,406	32,478	35,595	–	–	941,004	795,265	1,736,269
variable rate	15,243	355,244	271,173	66,893	1,558	13,399	–	–	–	–	–	–	287,974	435,536	723,510
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	485,787	356,806	485,787	356,806	842,593

As at 31 December 2016:

	Within 1 month		Over 1 month and Within 3 months		Over 3 months and Within 12 months		Over 1 year and Within 2 years		Over 2 years		Non-interest-bearing		Total		Total
	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	
LIABILITIES															
Amounts due to banks, the Hungarian Government, deposits from the National Bank of Hungary and other banks	**79,392**	**141,526**	**6,066**	**16,888**	**53,690**	**8,908**	**34,791**	**8,471**	**180,193**	**11,766**	**102**	**1,982**	**354,234**	**189,541**	**543,775**
fixed rate	78,779	58,004	5,974	859	27,356	5,625	34,744	5,740	179,983	6,219	–	–	326,836	76,447	403,283
variable rate	613	83,522	92	16,029	26,334	3,283	47	2,731	210	5,547	–	–	27,296	111,112	138,408
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	102	1,982	102	1,982	2,084
Deposits from customers	**1,310,585**	**2,524,949**	**351,252**	**363,467**	**378,096**	**596,436**	**5,227**	**138,664**	**1,988,233**	**736,961**	**10,139**	**136,574**	**4,043,532**	**4,497,051**	**8,540,583**
fixed rate	514,177	1,185,713	326,181	360,605	378,096	596,436	5,227	138,664	4,454	99,215	–	–	1,228,135	2,380,633	3,608,768
variable rate	796,408	1,339,236	25,071	2,862	–	–	–	–	1,983,779	637,746	–	–	2,805,258	1,979,844	4,785,102
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	10,139	136,574	10,139	136,574	146,713
Liabilities from issued securities	**1**	**9,340**	**2,957**	**9,375**	**7,480**	**18,451**	**9,320**	**204**	**87,367**	**38**	**1,951**	**416**	**109,076**	**37,824**	**146,900**
fixed rate	1	8,238	2,957	8,386	7,480	16,542	9,320	204	87,367	38	–	–	107,125	33,408	140,533
variable rate	–	1,102	–	989	–	1,909	–	–	–	–	–	–	–	4,000	4,000
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	1,951	416	1,951	416	2,367
Derivative financial instruments	**1,105,795**	**124,832**	**534,213**	**150,853**	**249,185**	**11,700**	**161,519**	**16,746**	**41,332**	**59,631**	**374,777**	**449,963**	**2,466,821**	**813,725**	**3,280,546**
fixed rate	740,009	119,742	313,883	56,132	248,403	2,351	161,519	16,746	41,332	59,631	–	–	1,505,146	254,602	1,759,748
variable rate	365,786	5,090	220,330	94,721	782	9,349	–	–	–	–	–	–	586,898	109,160	696,058
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	374,777	449,963	374,777	449,963	824,740
Subordinated bonds and loans	**–**	**–**	**–**	**76,936**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**522**	**–**	**77,458**	**77,458**
fixed rate	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
variable rate	–	–	–	76,936	–	–	–	–	–	–	–	–	–	76,936	76,936
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	–	522	–	522	522
Net position	**(929,021)**	**597,847**	**415,278**	**379,476**	**139,705**	**(160,644)**	**426,133**	**163,144**	**(531,302)**	**(94,317)**	**425,016**	**433,030**	**(54,191)**	**1,318,536**	**1,264,345**

As at 31 December 2015:

	Within 1 month		Over 1 month and within 3 months		Over 3 moths and within 12 months		Over 1 year and within 2 years		Over 2 years		Non-interest-bearing		Total		Total
	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	
ASSETS															
Cash, amounts due from banks and balances with the National Banks	**1,204,852**	**124,465**	**251**	**129**	**–**	**18**	**–**	**–**	**–**	**–**	**78,000**	**471,245**	**1,283,103**	**595,857**	**1,878,960**
fixed rate	1,203,663	68,286	–	40	–	18	–	–	–	–	–	–	1,203,663	68,344	1,272,007
variable rate	1,189	56,179	251	89	–	–	–	–	–	–	–	–	1,440	56,268	57,708
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	78,000	471,245	78,000	471,245	549,245
Placements with other banks, net of allowance for placements losses	**40,110**	**158,875**	**5,083**	**40,634**	**26**	**13,270**	**3**	**696**	**11,983**	**4,780**	**15**	**25,093**	**57,220**	**243,348**	**300,568**
fixed rate	37,814	110,924	498	7,847	26	8,343	3	696	11,983	4,002	–	–	50,324	131,812	182,136
variable rate	2,296	47,951	4,585	32,787	–	4,927	–	–	–	778	–	–	6,881	86,443	93,324
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	15	25,093	15	25,093	25,108
Securities held for trading	**1,201**	**–**	**2,124**	**339**	**7,863**	**72**	**141**	**4,216**	**10,335**	**8,745**	**72,253**	**4,687**	**93,917**	**18,059**	**111,976**
fixed rate	299	–	1,856	339	5,950	54	141	4,216	10,335	8,745	–	–	18,581	13,354	31,935
variable rate	902	–	268	–	1,913	18	–	–	–	–	–	–	3,083	18	3,101
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	72,253	4,687	72,253	4,687	76,940
Securities available-for-sale	**21,671**	**15,155**	**18,953**	**19,551**	**9,271**	**70,052**	**21,419**	**58,096**	**854,494**	**137,196**	**50,940**	**28,688**	**976,748**	**328,738**	**1,305,486**
fixed rate	–	12,975	–	19,551	9,271	65,079	21,419	58,096	854,494	136,060	–	–	885,184	291,761	1,176,945
variable rate	21,671	2,180	18,953	–	–	4,973	–	–	–	1,136	–	–	40,624	8,289	48,913
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	50,940	28,688	50,940	28,688	79,628
Loans, net of allowance for loan losses	**494,685**	**1,679,202**	**565,545**	**830,627**	**263,497**	**284,342**	**153,606**	**121,203**	**506,656**	**255,515**	**86,347**	**168,742**	**2,070,336**	**3,339,631**	**5,409,967**
fixed rate	8,566	253,898	9,926	102,394	58,511	174,813	50,003	104,835	113,882	232,971	–	–	240,888	868,911	1,109,799
variable rate	486,119	1,425,304	555,619	728,233	204,986	109,529	103,603	16,368	392,774	22,544	–	–	1,743,101	2,301,978	4,045,079
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	86,347	168,742	86,347	168,742	255,089
Securities held-to-maturity	**–**	**37,159**	**16,085**	**5,858**	**35,710**	**2,429**	**86,409**	**1,376**	**678,012**	**47,847**	**14,767**	**1,025**	**830,983**	**95,694**	**926,677**
fixed rate	–	36,984	12,746	5,858	35,710	2,409	86,409	1,376	678,012	47,847	–	–	812,877	94,474	907,351
variable rate	–	175	3,339	–	–	20	–	–	–	–	–	–	3,339	195	3,534
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	14,767	1,025	14,767	1,025	15,792
Derivative financial instruments	**673,749**	**668,051**	**1,351,732**	**384,757**	**217,206**	**109,734**	**46,773**	**149,426**	**39,414**	**29,997**	**346,498**	**194,146**	**2,675,372**	**1,536,111**	**4,211,483**
fixed rate	500,878	227,526	428,021	135,754	216,291	66,795	46,773	149,426	39,414	29,997	–	–	1,231,377	609,498	1,840,875
variable rate	172,871	440,525	923,711	249,003	915	42,939	–	–	–	–	–	–	1,097,497	732,467	1,829,964
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	346,498	194,146	346,498	194,146	540,644

As at 31 December 2015:

	Within 1 month		Over 1 month and within 3 months		Over 3 moths and within 12 months		Over 1 year and within 2 years		Over 2 years		Non-interest-bearing		Total		Total
	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	
LIABILITIES															
Amounts due to banks, the Hungarian Government, deposits from the National Bank of Hungary and other banks	**95,241**	**129,524**	**8,142**	**45,391**	**54,483**	**5,982**	**10,760**	**3,651**	**170,320**	**5,707**	**8**	**4,101**	**338,954**	**194,356**	**533,310**
fixed rate	95,174	64,590	7,049	7,382	23,383	5,427	10,760	3,651	170,320	5,706	–	–	306,686	86,756	393,442
variable rate	67	64,934	1,093	38,009	31,100	555	–	–	–	1	–	–	32,260	103,499	135,759
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	8	4,101	8	4,101	4,109
Deposits from customers	**1,306,653**	**2,484,899**	**472,572**	**473,728**	**136,025**	**703,014**	**2,224**	**68,831**	**1,818,548**	**397,140**	**3,230**	**117,715**	**3,739,252**	**4,245,327**	**7,984,579**
fixed rate	706,888	1,252,940	472,558	471,863	136,025	703,004	2,224	68,831	259,993	101,191	–	–	1,577,688	2,597,829	4,175,517
variable rate	599,765	1,231,959	14	1,865	–	10	–	–	1,558,555	295,949	–	–	2,158,334	1,529,783	3,688,117
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	3,230	117,715	3,230	117,715	120,945
Liabilities from issued securities	**1,916**	**6,202**	**157**	**9,082**	**11,002**	**41,623**	**16,153**	**8,443**	**137,495**	**236**	**7,021**	**46**	**173,744**	**65,632**	**239,376**
fixed rate	1,916	5,953	157	6,929	11,002	38,667	16,153	8,443	137,495	236	–	–	166,723	60,228	226,951
variable rate	–	249	–	2,153	–	2,956	–	–	–	–	–	–	–	5,358	5,358
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	7,021	46	7,021	46	7,067
Derivative financial instruments	**1,248,271**	**98,165**	**1,083,679**	**636,911**	**158,671**	**134,008**	**190,632**	**6,931**	**40,977**	**72,001**	**227,762**	**275,151**	**2,949,992**	**1,223,167**	**4,173,159**
fixed rate	635,192	89,002	418,185	143,566	157,950	125,122	190,632	6,931	40,977	72,001	–	–	1,442,936	436,622	1,879,558
variable rate	613,079	9,163	665,494	493,345	721	8,886	–	–	–	–	–	–	1,279,294	511,394	1,790,688
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	227,762	275,151	227,762	275,151	502,913
Subordinated bonds and loans	**–**	**–**	**–**	**5**	**–**	**234,773**	**–**	**–**	**–**	**–**	**–**	**6**	**–**	**234,784**	**234,784**
fixed rate	–	–	–	–	–	234,773	–	–	–	–	–	–	–	234,773	234,773
variable rate	–	–	–	5	–	–	–	–	–	–	–	–	–	5	5
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	–	6	–	6	6
Net position	**(215,813)**	**(35,883)**	**395,223**	**116,778**	**173,392**	**(639,483)**	**88,582**	**247,157**	**(66,446)**	**8,996**	**410,799**	**496,607**	**785,737**	**194,172**	**979,909**

NOTE 39: CONSOLIDATED EARNINGS PER SHARE (in HUF mn)

Consolidated Earnings per share attributable to the ordinary shares of the Group are determined by dividing consolidated Net profit for the year attributable to ordinary shareholders, after the deduction of declared preference dividends, by the weighted average number of ordinary shares outstanding during the year. Dilutive potential ordinary shares are deemed to have been converted into ordinary shares.

	2016	2015
Consolidated net profit for the year attributable to ordinary shareholders (in HUF mn)	202,210	63,583
Weighted average number of ordinary shares outstanding during the year for calculating basic EPS (number of share)	264,214,052	262,204,162
Basic Earnings per share (in HUF)	**765**	**242**
Consolidated net profit for the year attributable to ordinary shareholders (in HUF mn)	202,210	63,583
Modified weighted average number of ordinary shares outstanding during the year for calculating diluted EPS (number of share)	264,266,374	262,419,544
Diluted Earnings per share (in HUF)	**765**	**242**
Weighted average number of ordinary shares	280,000,010	280,000,010
Average number of Treasury shares	15,785,958	17,795,848
Weighted average number of ordinary shares outstanding during the year for calculating basic EPS	**264,214,052**	**262,204,162**
Dilutive effects of options issued in accordance with the Remuneration Policy/Management Option Program and convertible into ordinary shares*	52,322	215,382
The modified weighted average number of ordinary shares outstanding during the year for calculating diluted EPS	**264,266,374**	**262,419,544**

NOTE 40: NET GAIN OR LOSS REALIZED ON FINANCIAL INSTRUMENTS (in HUF mn)

As at 31 December 2016:

	Net interest gain and loss	Net non-interest gain and loss	Provision for impairment	Other Comprehensive Income
Cash, amounts due from banks and balances with the National Banks	9,866	–	–	–
Placements with other banks, net of allowance for placements losses	4,263	–	133	–
Securities held for trading	–	1,450	–	–
Securities available-for-sale	34,557	19,378	55	12,993
Loans, net of allowance for loan losses	499,273	11,074	(93,605)	–
Securities held-to-maturity	51,427	–	–	–
Other assets	3,366	–	–	–
Derivative financial instruments	3,408	493	–	–
Amounts due to banks, the Hungarian Government, deposits from the National Banks and other banks	(7,723)	–	–	–
Deposits from customers	(63,743)	158,893	–	–
Liabilities from issued securities	(4,726)	–	–	–
Subordinated bonds and loans	(10,239)	–	–	–
Total	**519,729**	**191,288**	**(93,417)**	**12,993**

* Both in the year 2016 and 2015 the dilutive effect is in connection with the Remuneration Policy.

As at 31 December 2015:

	Net interest gain and loss	Net non-interest gain and loss	Provision for impairment	Other Comprehensive Income
Cash, amounts due from banks and balances with the National Banks	27,496	–	–	–
Placements with other banks, net of allowance for placements losses	2,765	–	6	–
Securities held for trading	–	1,067	–	–
Securities available-for-sale	31,063	7,324	(17)	(304)
Loans, net of allowance for loan losses	572,120	10,207	(318,689)	–
Securities held-to-maturity	46,619	–	2	–
Other assets	3,050	–	–	–
Derivative financial instruments	5,467	(618)	–	–
Amounts due to banks, the Hungarian Government, deposits from the National Banks and other banks	(10,627)	–	–	–
Deposits from customers	(107,104)	157,368	–	–
Liabilities from issued securities	(6,786)	–	–	–
Subordinated bonds and loans	(13,633)	–	–	–
Total	**550,430**	**175,348**	**(318,698)**	**(304)**

NOTE 41: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn)

In determining the fair value of a financial asset or liability the Group in the case of instruments that are quoted on an active market uses the market price. In most cases market price is not publicly available so the Group has to make assumptions or use valuation techniques to determine the fair value of a financial instrument. See Note 40. e) for more information about fair value classes applied for financial assets and liabilities measured at fair value in these financial statements.

To provide a reliable estimate of the fair value of those financial instrument that are originally measured at amortized cost, the Group used the discounted cash-flow analyses (loans, placements with other banks, amounts due to banks, deposits from customers). The fair value of issued securities and subordinated bonds is based on quoted prices (e.g. Reuters). Cash and amounts due from banks and balances with the National Banks represent amounts available immediately thus the fair value equals to the cost.

The assumptions used when calculating the fair value of financial assets and liabilities when using valuation technique are the following:

- the discount rates are the risk free rates related to the denomination currency adjusted by the appropriate risk premium as of the end of the reporting period,
- the contractual cash-flows are considered for the performing loans and for the non-performing loans, the amortized cost less impairment is considered as fair value,
- the future cash-flows for floating interest rate instruments are estimated from the yield curves as of the end of the reporting period,
- the fair value of the deposit which can be due in demand cannot be lower than the amount payable on demand.

Classes of assets and liabilities not measured at fair value in the statement of financial position, income approach was used to convert future cash-flows to a single current amount. Fair value of current assets is equal to carrying amount, fair value of liabilities from issued securities and other bond-type classes of assets and liabilities not measured at fair value measured based on Reuters market rates, fair value of other classes not measured at fair value of the statement of financial position measured at discounted cash-flow method. Fair value of loans, net of allowance for loan losses measured at discount rate adjustment technique, the discount rate is derived from observed rates of return for comparable assets or liabilities that are traded in the market.

Fair value measurements – in relation with instruments measured not at fair value – are categorized in level 2 of the fair value hierarchy.

a) Fair value of financial assets and liabilities

	2016		2015	
	Carrying amount	Fair value	Carrying amount	Fair value
Cash, amounts due from banks and balances with the National Banks	1,625,357	1,625,466	1,878,960	1,880,223
Placements with other banks, net of allowance for placements losses	363,530	374,733	300,568	318,972
Financial assets at fair value through profit or loss	293,106	293,106	253,782	253,782
Securities held for trading	**184,796**	**184,796**	**111,976**	**111,976**
Fair value of derivative financial instruments classified as held for trading	**108,310**	**108,310**	**141,806**	**141,806**
Securities available-for-sale	1,527,093	1,527,093	1,305,486	1,305,486
Loans, net of allowance for loan losses*	5,736,232	6,385,775	5,409,967	6,028,495
Securities held-to-maturity	1,114,227	1,198,227	926,677	1,010,112
Fair value of derivative financial instruments designated as fair value hedge	7,887	7,887	16,009	16,151
Financial assets total	**10,667,432**	**11,412,287**	**10,091,449**	**10,813,221**
Amounts due to banks, the Hungarian Government, deposits from the National Banks and other banks	543,775	540,194	533,310	533,338
Deposits from customers	8,540,583	8,511,959	7,984,579	7,969,922
Liabilities from issued securities	146,900	258,372	239,376	351,488
Fair value of derivative financial instruments designated as fair value hedge	20,002	20,002	13,723	13,723
Fair value of derivative financial instruments classified as held for trading	75,871	75,871	101,561	101,561
Subordinated bonds and loans	77,458	69,966	234,784	240,619
Financial liabilities total	**9,404,589**	**9,476,364**	**9,107,333**	**9,210,651**

* Higher discount rate due to the lower yield environment resulted in higher fair value comparing to the carrying values.

b) Fair value of derivative instruments

	Fair value		Notional value, net	
	2016	2015	2016	2015
Interest rate swaps classified as held for trading				
Positive fair value of interest rate swaps classified as held for trading	38,878	33,770	35,435	40,475
Negative fair value of interest rate swaps classified as held for trading	(33,012)	(30,453)	(33,264)	(37,135)
Foreign exchange swaps classified as held for trading				
Positive fair value of foreign exchange swaps classified as held for trading	17,148	15,551	17,744	14,083
Negative fair value of foreign exchange swaps classified as held for trading	(13,125)	(7,687)	(13,405)	(8,000)
Interest rate swaps designated as fair value hedge				
Positive fair value of interest rate swaps designated as fair value hedge	6,888	15,393	9,428	7,932
Negative fair value of interest rate swaps designated as fair value hedge	(19,976)	(13,723)	(31,580)	(17,211)
Foreign exchange swaps designated as fair value hedge				
Positive fair value of foreign exchange swaps designated as fair value hedge	–	–	–	–
Negative fair value of foreign exchange swaps designated as fair value hedge	–	–	–	–
CCIRS classified as held for trading				
Positive fair value of CCIRS classified as held for trading	33,768	84,270	31,646	84,721
Negative fair value of CCIRS classified as held for trading	(14,984)	(53,505)	(13,473)	(54,309)
Mark-to-market CCIRS classified as held for trading				
Positive fair value of mark-to-market CCIRS classified as held for trading	332	–	383	–
Negative fair value of mark-to-market CCIRS classified as held for trading	(700)	(2,370)	(665)	(2,143)
CCIRS designated as fair value hedge				
Positive fair value of CCIRS designated as fair value hedge	998	604	1,031	693
Negative fair value of CCIRS designated as fair value hedge	(26)	–	(14)	–
Mark-to-market CCIRS designated as fair value hedge				
Positive fair value of mark-to-market CCIRS designated as fair value hedge	–	–	–	–
Negative fair value of mark-to-market CCIRS designated as fair value hedge	–	–	–	–
Other derivative contracts designated as fair value hedge				
Positive fair value of other derivative contracts designated as fair value hedge	1	12	1	12
Negative fair value of other derivative contracts designated as fair value hedge	–	–	–	–
Other derivative contracts classified as held for trading				
Positive fair value of other derivative contracts classified as held for trading	18,184	8,215	13,098	5,098
Negative fair value of other derivative contracts classified as held for trading	(14,050)	(7,546)	(8,616)	(4,290)
Derivative financial assets total	**116,197**	**157,815**	**108,766**	**153,014**
Derivative financial liabilities total	**(95,873)**	**(115,284)**	**(101,017)**	**(123,088)**
Derivative financial instruments total	**20,324**	**42,531**	**7,749**	**29,926**

c) Hedge accounting

The Group regularly enters into hedging transactions in order to decrease its financial risks. However some economically hedging transaction do not meet the criteria to account for hedge accounting, therefore these transactions were accounted as derivatives held for trading.

The summary of the hedging transactions of the Group are as follows:

As at 31 December 2016:

Types of the hedges	Hedging instrument	Fair value of the hedging instrument	The nature of the risk being hedged
Fair value hedges	IRS	HUF (13,088) million	Interest rate
Fair value hedges	CCIRS	HUF 972 million	Interest rate/Foreign exchange
Net investment hedge in foreign operations*	CCIRS and issued securities	HUF (577) million	Foreign exchange

As at 31 December 2015:

Types of the hedges	Hedging instrument	Fair value of the hedging instrument	The nature of the risk being hedged
1) Fair value hedges	IRS	HUF 1,670 million	Interest rate
2) Fair value hedges	CCIRS	HUF 65 million	Interest rate/Foreign currency
3) Net investment hedge in foreign operations*	CCIRS and issued securities	HUF 548 million	Foreign exchange

* The objective of these hedge relationships is to mitigate the risk of changes in value of net investments in foreign subsidiaries (namely: DSK Bank EAD, OTP banka Hrvatska d.d., Crnogorska komercijalna banka a.d., OTP Banka Slovensko a.s.) due to change in foreign exchange rates.

d) Fair value hedges

1. Securities available-for-sale

The Group holds fixed interest rate securities denominated in foreign currencies and fixed interest rate government bonds denominated in HUF within the available-for-sale portfolio. These fixed interest rate securities are exposed to the fair value risk driven by the changes in the risk-free interest rates. In order to hedge the interest rate risk of the cash-flows the Group entered into pay fixed-receive floater interest rate swap transactions, where the risk from the cash-flows of the securities are swapped to payments linked to 3 or 12 month EURIBOR and the risk from the cash-flows of the bonds are swapped to payments linked to 6 month BUBOR, resulting in a decrease in the fair value exposure of the securities available-for-sale.

	2016	2015
Fair value of the hedging IRS instruments	(19,305)	(11,266)

2. Loans to customers/corporates

The Group has fixed interest rate loans denominated in various currencies. These fixed interest rate loans are exposed to fair value risk of changes of risk-free interest rates. In order to hedge the interest rate risk of the cash-flows the Group entered into pay-fixed, receive-floater interest rate swap transactions, where the risk of the payments from the loans are swapped to payments linked to 3 month EURIBOR or BUBOR resulting in a decrease in the interest-rate fair value exposure of the loans to customers.
The Bank has further floating interest rate loans denominated in RON and CHF. These loans are exposed to the change of foreign exchange of RON and CHF and the risk of FX component of changes in interest rates of CHF. In order to hedge the foreign currency risk and the interest rate risk OTP entered into CCIRS transactions.

	2016	2015
Fair value of the hedging IRS instruments	(4)	(165)
Fair value of the hedging CCIRS instruments	972	65

3. Issued securities

The cash-flows of the fixed rate securities issued by the Group are exposed to the change in the HUF/EUR foreign exchange rate and the risk of change in the risk-free interest rates of EUR and HUF. The interest rate risk and foreign exchange risk related to these securities are hedged with EUR and HUF IRS and index option transactions. In the case of IRS transactions the fixed cash-flows were swapped to payments linked to 3 month EURIBOR or BUBOR, resulting a decrease in the interest rate and foreign exchange exposure of issued securities.

	2016	2015
Fair value of the hedging IRS instruments	6,221	13,101

As at 31 December 2016:

Types of hedged items	Types of hedging instruments	Fair value of the hedged items	Fair value of the hedging instruments	Gains/Losses on the hedged items	Gains/Losses on hedging instruments
Securities available-for-sale	IRS	HUF 853,804 million	HUF (19,305) million	HUF 11,723 million	HUF (13,619) million
Loans to customers	IRS	HUF 451 million	HUF (4) million	HUF (161) million	HUF 161 million
Loans to corporates	CCIRS	HUF 53,937 million	HUF 972 million	HUF (168) million	HUF 168 million
Liabilities from issued securities	IRS	HUF 69,959 million	HUF 6,221 million	HUF 7,512 million	HUF (7,512) million

As at 31 December 2015:

Types of hedged items	Types of hedging instruments	Fair value of the hedged items	Fair value of the hedging instruments	Gains/Losses on the hedged items	Gains/Losses on hedging instruments
Securities available-for-sale	IRS	HUF 668,484 million	HUF (11,266) million	HUF 9,818 million	HUF (8,696) million
Loans to customers	IRS	HUF 5,561 million	HUF (165) million	HUF (252) million	HUF 252 million
Loans to corporates	CCIRS	HUF 56,458 million	HUF 65 million	HUF 202 million	HUF 65 million
Deposits from customers	IRS	–	–	HUF 107 million	HUF (107) million
Liabilities from issued securities	IRS	HUF 71,786 million	HUF 13,101 million	HUF 348 million	HUF (348) million
Liabilities from issued securities	Index option	–	–	HUF 9 million	HUF (9) million

e) Fair value levels

Methods and significant assumptions used to determine fair value of the different levels of financial instruments:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: inputs other than quoted prices included within Level 1, that are observable for the asset or liability either directly or indirectly.
Fair value measurements – in relation with instruments measured not at fair value – are categorized in level 2;

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

As at 31 December 2016:

	Total	Level 1	Level 2	Level 3
Financial assets at fair value through profit or loss	292,176	166,204	125,972	–
from this: securities held for trading	183,866	166,117	17,749	–
from this: positive fair value of derivative financial instruments classified as held for trading	108,310	87	108,223	–
Securities available-for-sale	1,511,519	1,151,543	352,280	7,696
Positive fair value of derivative financial instruments designated as fair value hedge	7,887	–	7,887	–
Financial assets measured at fair value total	**1,811,582**	**1,317,747**	**486,139**	**7,696**
Negative fair value of derivative financial instruments classified as held for trading	75,871	267	75,604	–
Negative fair value of derivative financial instruments designated as fair value hedge	20,002	–	19,943	59
Financial liabilities measured at fair value total	**95,873**	**267**	**95,547**	**59**

As at 31 December 2015:

	Total	Level 1	Level 2	Level 3
Financial assets at fair value through profit or loss	253,111	103,476	149,635	–
from this: securities held for trading	111,305	103,455	7,850	–
from this: positive fair value of derivative financial instruments classified as held for trading	141,806	21	141,785	–
Securities available-for-sale	1,284,979	1,097,952	172,353	14,674*
Positive fair value of derivative financial instruments designated as fair value hedge	16,009	–	16,009	-
Financial assets measured at fair value total	**1,554,099**	**1,201,428**	**337,997**	**14,674**
Negative fair value of derivative financial instruments classified as held for trading	101,561	35	101,526	–
Negative fair value of derivative financial instruments designated as fair value hedge	13,723	–	13,723	–
Financial liabilities measured at fair value total	**115,284**	**35**	**115,249**	**–**

The following table shows a reconciliation of the opening and closing amount of Level 3 securities available-for-sale which are recorded at fair value:

Movement on securities available-for-sale in Level 3	Opening balance	Increase/ (Decrease)	Closing balance
OTP Bank Plc.	5,667	(3,804)	1,863
DSK Bank EAD	3,031	(1,373)	1,658
OTP Factoring Ltd.	2,087	9	2,096
OTP banka Hrvatska d.d.	1,136	(757)	379
OTP Bank Romania S.A.	1,027	(685)	342
OTP Banka Slovensko a.s.	907	(605)	302
OTP Factoring Ukarine LLC	717	262	979
OTP banka Srbija a.d.	27	(24)	3
LLC AMC OTP Capital	74	–	74
Total	**14,673**	**(6,977)**	**7,696**

NOTE 42: SEGMENT REPORTING BY BUSINESS AND GEOGRAPHICAL SEGMENTS (in HUF mn)

The Group distinguishes business and geographical segments. The report on the base of the business and geographical segments is reported bellow.

The reportable segments of the Group on the base of IFRS 8 are the following: OTP Core Hungary, Russia, Ukraine, Bulgaria, Romania, Serbia, Croatia, Slovakia, Montenegro, Leasing subsidiaries, Asset Management subsidiaries, Other subsidiaries and Corporate Center.
OTP Core is an economic unit for measuring the result of core business activity of the Group in Hungary. Financials for OTP Core are calculated from the consolidated financial statements of the companies engaged in the Group's underlying banking operation in Hungary. These companies include OTP Bank Hungary Plc., OTP Mortgage Bank Ltd., OTP Building Society Ltd., OTP Factoring Ltd., OTP Financial Point Ltd., and companies providing intragroup financing.
Corporate Centre: it is separated from OTP Core consolidated financial statements, this is a virtual entity responsible for rendering debt and capital market related to services to the subsidiaries across the Group, mainly in the form of capital and credit financing.

* From the whole portfolio HUF 2,886 million includes shares of Visa Inc. as at 31 December 2016 and HUF 10,789 million includes shares of Visa Europe as at 31 December 2015. The purchase price includes three components (upfront component: cash and Visa Inc. "C" preferential shares with limited marketability; and deferred earn-out payment). Sensitivity analysis is not applicable (see details in Note 43.).

The results of OTP Factoring Ukraine LLC, OTP Factoring SRL, OTP Factoring Bulgaria LLC, OTP Factoring Serbia d.o.o., OTP Factoring Montenegro d.o.o. and OTP Factoring Slovensko s.r.o. are included into the foreign banks segment.
The activities of the other subsidiaries are out of the leasing and fund management activity, like: OTP Real Estate Ltd., OTP Life Annuity Ltd., OTP Funds Servicing and Consulting Ltd., Monicomp Ltd., OTP Building s.r.o., OTP Real Slovensko s.r.o.

The reportable business and geographical segments of the Group are those components where:

- separated incomes and expenses, assets and liabilities can be identified and assignable to the segments,
- transactions between the different segments were eliminated,
- the main decisive board of the Group regularly controls the operating results,
- separated financial information is available.

Goodwill/investment impairment and their tax saving effect:

Nor in the year ended 31 December 2016 neither in the year ended 31 December 2015 no goodwill impairment was recognized at all. In the year 2016 due to the impairment on investment in OTP Factoring Ukraine LLC HUF 11,552 million, while in year 2015 in OTP Bank JSC (Ukraine) HUF 6,683 million tax shield was recognized.

Information regarding the Group's reportable segments is presented below:

As at 31 December 2016:

Main components of the Consolidated Statement of Recognized Income in HUF million	OTP Group – consolidated – in the Consolidated Statement of Recognized Income – structure of accounting reports	Adjustements on the accounting in Recognized Income	OTP Group – consolidated – in the Consolidated Statement of Recognized Income – structure of management reports	OTP CORE (Hungary)	Foreign banks subtotal (without adjustments)	JSC "OTP Bank" (Russia)	OTP Bank JSC (Ukraine)	DSK Bank EAD (Bulgaria)
	a	b	1=a+b 1=2+3+12+16+17	2	3=4+...+11	4	5	6
Net profit for the year	**202,452**		**202,452**					
Adjustments (total)		**1,276**	**1,276**					
Dividends and net cash transfers (after income tax)		412	412					
Goodwill/investment impairment (after income tax)		11,552	11,552					
Bank tax on financial institutions (after income tax)		(13,950)	(13,950)					
Fine imposed by the Hungarian Competition Authority (after income tax)		1,922	1,922					
Expected corporate tax impact of switching to IFRS from HAS in Hungary		(5,766)	(5,766)					
Revaluation of deferred taxes recognized in the P&L due to the corporate tax rate cut in Hungary		(6,054)	(6,054)					
Gain on the sale of Visa Europe shares (after income tax)		13,160	13,160					
Consolidated adjusted net profit for the year	**202,452**	**(1,276)**	**201,176**	**122,190**	**73,623**	**14,636**	**10,202**	**47,383**
Profit before income tax	**236,395**	**8,376**	**244,771**	**151,866**	**86,165**	**19,648**	**11,679**	**52,380**
Adjusted operating profit	**329,868**	**6,032**	**335,900**	**143,672**	**179,108**	**54,537**	**22,217**	**70,111**
Adjusted total income	785,966	(49,651)	736,315	354,671	349,556	106,031	37,304	112,502
Adjusted net interest income	519,729	2,221	521,950	235,871	272,618	92,025	26,478	84,023
Adjusted net profit from fees and commissions	222,991	(47,025)	175,966	100,214	64,636	13,749	8,746	26,034
Adjusted other net non-interest income	43,246	(4,847)	38,399	18,586	12,302	257	2,080	2,445
Adjusted other administrative expenses	(456,098)	55,683	(400,415)	(210,999)	(170,448)	(51,494)	(15,087)	(42,391)
Total risk costs	**(93,473)**	**254**	**(93,219)**	**6,104**	**(92,943)**	**(34,889)**	**(10,538)**	**(17,731)**
Adjusted provision for impairment on loan and placement losses (without the effect of revaluation of FX)	(93,473)	20,249	(73,224)	14,036	(83,905)	(34,021)	(11,866)	(12,980)
Other provision (adjustment)	0	(19,995)	(19,995)	(7,932)	(9,038)	(868)	1,328	(4,751)
Total other adjustments (one-off items)*	**0**	**2,090**	**2,090**	**2,090**	**0**	**0**	**0**	**0**
Income tax	**(33,943)**	**(9,652)**	**(43,595)**	**(29,676)**	**(12,542)**	**(5,012)**	**(1,477)**	**(4,997)**
Total Assets	**11,307,665**	**0**	**11,307,665**	**7,247,291**	**4,820,637**	**648,807**	**307,117**	**1,852,901**
Total Liabilities	**9,887,016**	**0**	**9,887,016**	**5,934,832**	**4,224,484**	**518,032**	**282,874**	**1,605,634**

( ) used at: provisions, impairment and expenses.

* One-off item consists of: the result of the treasury share swap agreement at OTP Core in the amount of HUF 2,090 million.

OTP Bank Romania S.A. (Romania)	OTP banka Srbija a.d. (Serbia)	OTP banka Hrvatska d.d. (Croatia)	OTP Banka Slovensko a.s. (Slovakia)	Crnogorska komercijalna banka a.d. (Montenegro)	**Non-banking subsidiaries subtotal**	**Leasing subsidiaries**	**Asset Management subsidiaries**	**Other subsidiaries**	**Corporate Centre**	**Eliminations and adjustments**
7	8	9	10	11	12=13+14+15	13	14	15	16	17
1,653	**39**	**3,782**	**(2,224)**	**(1,848)**	**12,997**	**3,967**	**6,723**	**2,307**	**(5,868)**	**(1,766)**
2,136	**5**	**4,647**	**(2,480)**	**(1,850)**	**15,199**	**4,264**	**8,114**	**2,821**	**(6,615)**	**(1,844)**
8,543	**697**	**13,538**	**6,780**	**2,685**	**18,745**	**8,550**	**7,894**	**2,301**	**(4,318)**	**(1,307)**
26,643	7,720	31,442	17,892	10,022	52,469	17,038	10,842	24,589	(4,015)	(16,366)
20,315	5,769	22,800	14,257	6,951	23,936	19,804	33	4,099	(4,015)	(6,460)
3,230	1,653	5,330	3,272	2,622	11,325	(491)	10,796	1,020	0	(209)
3,098	298	3,312	363	449	17,208	(2,275)	13	19,470	0	(9,697)
(18,100)	(7,023)	(17,904)	(11,112)	(7,337)	(33,724)	(8,488)	(2,948)	(22,288)	(303)	15,059
(6,407)	**(692)**	**(8,891)**	**(9,260)**	**(4,535)**	**(3,546)**	**(4,286)**	**220**	**520**	**(2,297)**	**(537)**
(5,541)	(890)	(5,331)	(8,987)	(4,289)	(3,010)	(3,088)	0	78	0	(345)
(866)	198	(3,560)	(273)	(246)	(536)	(1,198)	220	442	(2,297)	(192)
0	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
(483)	**34**	**(865)**	**256**	**2**	**(2,202)**	**(297)**	**(1,391)**	**(514)**	**747**	**78**
588,188	**123,279**	**649,063**	**453,720**	**197,562**	**727,025**	**435,283**	**19,040**	**272,702**	**1,370,966**	**(2,858,254)**
545,678	**94,474**	**575,037**	**426,381**	**176,374**	**544,037**	**405,548**	**2,973**	**135,516**	**657,018**	**(1,473,355)**

As at 31 December 2015:

Main components of the Consolidated Statement of Recognized Income in HUF million	OTP Group – consolidated – in the Consolidated Statement of Recognized Income – structure of accounting reports	Adjustements on the accounting in Recognized Income	OTP Group – consolidated – in the Consolidated Statement of Recognized Income – structure of management reports	OTP CORE (Hungary)	Foreign banks subtotal (without adjustments)	JSC "OTP Bank" (Russia)	OTP Bank JSC (Ukraine)	DSK Bank EAD (Bulgaria)
	a	b	1=a+b 1=2+3+12+16+17	2	3=4+...+11	4	5	6
Net profit for the year	**63,171**		**63,171**					
Adjustments (total)		**(57,074)**	**(57,074)**					
Dividends and net cash transfers (after income tax)		144	144					
Goodwill/investment impairment (after income tax)		6,683	6,683					
Bank tax on financial institutions (after income tax)		(29,383)	(29,383)					
Fine imposed by the Hungarian Competition Authority (after income tax)		(662)	(662)					
Effect of Banco Popolare Croatia d.d. and Banca Millennium S.A. acquisition (after income tax)		1,550	1,550					
Actual and one-off effect in result due to changes in law related to customer loan agreements in Hungary (after income tax)		4,594	4,594					
Expected and current impact of regulatory changes related to Fx consumer contracts in Croatia, Romania and Serbia (after income tax)		(32,034)	(32,034)					
Risk cost created toward Crimean exposures from the second quarter of 2014 until 31 December 2015 (after income tax)		(169)	(169)					
Risk cost created toward exposues to Donetsk and Luhansk from the third quarter of 2014 until the end of year 2015 (after income tax)		(2,258)	(2,258)					
Revaluation of reverse mortgage portfolio of OTP Life Annuity Ltd. simultaneous with regulatory changes (after income tax)		(5,539)	(5,539)					
Consolidated adjusted net profit for the year	**63,171**	**57,073**	**120,244**	**123,359**	**(1,820)**	**(19,941)**	**(40,312)**	**52,537**
Profit before income tax	**60,024**	**86,033**	**146,057**	**149,216**	**(3,193)**	**(24,448)**	**(42,230)**	**58,266**
Adjusted operating profit	**378,707**	**(16,112)**	**362,595**	**170,599**	**184,772**	**58,495**	**25,184**	**73,136**
Adjusted total income	844,223	(89,311)	754,912	367,235	360,518	112,811	41,086	114,439
Adjusted net interest income	550,430	3,229	553,659	251,564	286,988	97,716	29,146	88,674
Adjusted net profit from fees and commissions	213,872	(46,621)	167,251	97,480	62,533	14,394	7,915	23,013
Adjusted other net non-interest income	79,921	(45,919)	34,002	18,191	10,997	701	4,025	2,752
Adjusted other administrative expenses	(465,516)	73,199	(392,317)	(196,636)	(175,746)	(54,316)	(15,902)	(41,303)
Total risk costs	**(318,683)**	**97,973**	**(220,710)**	**(25,555)**	**(187,965)**	**(82,943)**	**(67,414)**	**(14,870)**
Adjusted provision for impairment on loan and placement losses (without the effect of revaluation of FX)	(318,683)	107,019	(211,664)	(21,550)	(184,344)	(82,060)	(65,891)	(14,650)
Other provision (adjustment)	0	(9,046)	(9,046)	(4,005)	(3,621)	(883)	(1,523)	(220)
Total other adjustments (one-off items)*	**0**	**4,172**	**4,172**	**4,172**	**0**	**0**	**0**	**0**
Income tax	**3,147**	**(28,960)**	**(25,813)**	**(25,857)**	**1,373**	**4,507**	**1,918**	**(5,729)**
Total Assets	**10,718,848**	**0**	**10,718,848**	**6,774,200**	**4,651,454**	**514,491**	**292,882**	**1,778,326**
Total Liabilities	**9 485 189**	**0**	**9 485 189**	**5 563 251**	**4 142 684**	**423 514**	**327 685**	**1 524 857**

( ) used at: provisions, impairment and expenses.

* One-off items consist of: revaluation result of FX swap at OTP Core in the amount of HUF (679) million and the result of the treasury share swap agreement in the amount of HUF 4,851 million.

OTP Bank Romania S.A. (Romania)	OTP banka Srbija a.d. (Serbia)	OTP banka Hrvatska d.d. (Croatia)	OTP Banka Slovensko a.s. (Slovakia)	Crnogorska komercijalna banka a.d. (Montenegro)	**Non-banking subsidiaries subtotal**	**Leasing subsidiaries**	**Asset Management subsidiaries**	**Other subsidiaries**	**Corporate Centre**	**Eliminations and adjustments**
7	8	9	10	11	12=13+14+15	13	14	15	16	17
1,481	**(384)**	**2,967**	**923**	**909**	**4,526**	**1,785**	**2,713**	**28**	**(4,286)**	**(1,535)**
1,581	**(393)**	**1,711**	**1,412**	**908**	**6,189**	**1,685**	**3,620**	**884**	**(6,382)**	**227**
6,074	**1,293**	**10,844**	**6,600**	**3,146**	**14,327**	**6,810**	**6,109**	**1,408**	**(6,382)**	**(721)**
27,662	8,360	28,021	17,671	10,468	45,789	15,165	8,643	21,981	(5,761)	(12,869)
22,904	6,407	20,345	14,568	7,228	24,850	19,924	63	4,863	(5,761)	(3,982)
3,773	1,747	5,309	3,386	2,996	7,213	(2,133)	8,543	803	0	25
985	206	2,367	(283)	244	13,726	(2,626)	37	16,315	0	(8,912)
(21,588)	(7,067)	(17,177)	(11,071)	(7,322)	(31,462)	(8,355)	(2,534)	(20,573)	(621)	12,148
(4,493)	**(1,686)**	**(9,133)**	**(5,188)**	**(2,238)**	**(8,138)**	**(5,125)**	**(2,489)**	**(524)**	**0**	**948**
(6,598)	(922)	(6,813)	(5,144)	(2,266)	(5,329)	(4,948)	0	(381)	0	(441)
2,105	(764)	(2,320)	(44)	28	(2,809)	(177)	(2,489)	(143)	0	1,389
0	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
(100)	**9**	**1,256**	**(489)**	**1**	**(1,663)**	**100**	**(907)**	**(856)**	**2,096**	**(1,762)**
646,042	**119,224**	**649,870**	**450,819**	**199,800**	**655,859**	**395,233**	**14,116**	**246,510**	**1,410,729**	**(2,773,394)**
599,376	**89,847**	**580,307**	**420,389**	**176,709**	**520,898**	**371,201**	**4,775**	**144,922**	**731,090**	**(1,472,734)**

NOTE 43: SIGNIFICANT EVENTS DURING THE YEAR ENDED 31 DECEMBER 2016

1) Term Note Program

See details in Note 16.

2) New acquisition in Croatia

OTP banka Hrvatska d.d., the Croatian subsidiary of OTP, signed an acquisition agreement on purchasing 100% shareholding of Splitska Banka, member of Société Générale Group.
Societe Generale Splitska is the fifth biggest player on the Croatian banking market and as a universal bank it has been active in the retail and corporate segment as well. As a result of the acquisition the market share of the Group will rise to approximately 10%.
The Bank has been presented in Croatia since 2005 and its operation has been continuously profitable even during the economic crisis started in 2008. The financial closure of the transaction is expected in the summer 2017, whereas the integration process may be completed by summer 2018.

3) Agreement on purchasing unit of AXA Bank Hungary

See details in Note 32.

4) Agreement between the Visa Inc. and the Visa Europe

On 2 November 2015 Visa Inc. and Visa Europe Limited reached an agreement on the purchase of the shares of Visa Europe (owned by European banks) by Visa Inc. In the second quarter the proceeds after the sale of the Group members' stake in Visa Europe has been transferred and exceeded the amount that was flagged (according to Visa's notification on 15 December 2015). The cash transfer affected five group members: the Bank, DSK Bank EAD, OTP Bank Romania S.A., OTP banka Hrvatska d.d. and OTP Banka Slovensko a.s.. The after tax impact of the transaction represented HUF 13.2 billion (HUF 15.9 billion before tax) which included the realized cash transfer (HUF 9.6 billion after tax) and the discounted present values of deferred earn-out components due in 3 years and the C-type VISA Inc. shares (HUF 0.8 billion and HUF 2.8 billion respectively).

NOTE 44: POST BALANCE SHEET EVENTS

There were no significant events after the balance sheet date.

NOTE 45: STATEMENT OF ECONOMIC SITUATION AND IMPLICATIONS ON THE GROUP'S FINANCIALS

In 2016 macroeconomic developments were still shaped by fragile global growth, intensifying fears surrounding China's slowing economy, concerns about the Brexit referendum, and the political uncertainty caused by the US presidential election.

Economic growth accelerated in both the USA and the Eurozone at the end of the year. Having bottomed out in spring, commodity prices started to recover, helping inflation rise worldwide at the end of the year.
The new American president's programme,

which is based on tax reduction, investments into infrastructure, and more pronounced protectionist measures, and which is expected to lead to larger budget deficit, boost growth, and raise inflation, led to higher long-term yields, causing the Fed to launch a slow tightening cycle, yet the forward-looking US real interest rates may stay in negative territory until the end of next year. The same will apply to European markets, because despite the Eurozone's accelerated growth, the European Central Bank remains committed to maintaining loose monetary conditions.

In 2016, the economic performance of Central and Southeast Europe remained convincing, mainly because the fast contraction in unemployment and the acceleration in wage dynamics have bolstered consumption, counterbalancing the fall in EU-co-financed investments. Thus the region's economic growth slowed at milder pace, from 3–4% in 2015 to near 3% annually, and this pace is likely to persist throughout 2017 and 2018.

Hungary's economy grew by 2% in 2016, after expanding by 3% in 2015 and 4% in 2014. Economic growth decelerated to 1.6% by the fourth quarter. Most of this slowing can be put down to a sharp fall in EU-co-financed investments, and a setback in industrial production. Nevertheless, growth without one-off items (EU funds and agriculture) reached 3% in 2016. The main reason for this is the faster private consumption and the continued increase in market services value added. Another encouraging sign is that in industries that are less affected by EU funds (manufacturing and market services) investments have speeded up meaningfully because of the lack of capacity; a number of industries may see double-digit annual growth. The situation is similar on the real property market, where the rising prices, and the 'catalyst effect' of the earlier announced government measures sent building permit numbers soaring, in residential and commercial properties alike. Hungary's economic growth may draw near or exceed 4% in 2017, as the favourable underlying processes are likely to continue their upturn – in the case of consumption, they will be boosted by the government's measures announced at the end of 2016 that will accelerate wages' growth in 2017 (through cutting employers' social contributions, while raising minimum wages and guaranteed minimum wages for skilled workers); besides, EU fund inflow is likely to pick up in 2017, recovering from its fall in 2016.

The balance indicators of the Hungarian economy remain promising. On a four-quarter rolling basis, the general government swung into a surplus of 0.2% of GDP by the third quarter, which would have allowed a balanced budget. In order to boost the economy, the government decided to carry out significant one-off payments in the last months of the year, thus the budget ended the year with a deficit of 1.6% of GDP. Despite the announced tax cuts, we think plenty of fiscal room is left for 2017 to remain within the 2.4% deficit target. Hungary's public debt shrank further, to around 74% of GDP by the end of 2016.

In the second half of the year inflation picked up, ending the almost-three-year-long period of near-zero inflation (–0.2% in 2014, –0.1% in 2015, and +0.3% in 2016). By the end of the year, 12-month inflation climbed to 1.8%, chiefly owing to the higher commodity prices, and also because of the increase in demand-sensitive market services prices. Even though imported inflation is likely to remain low, looking forward, inflation will oscillate around the NBH's 3% target in 2017, and we expect annual inflation to average 2.9%.

Seeing the lower-than-expected global interest rate environment, the NBH launched an easing cycle in spring 2016, lowering the three-month deposit rate from 1.35% to 0.9%. Later, under the Self-Financing Programme, the Monetary Council launched new unconventional instruments, to prevent an unwanted forint firming, and in order that the targeted yield reduction could reach the longer end of the yield curve too. The former weekly auctions were replaced by four-weekly 3M deposit auctions. Since September, the NBH has been setting a cap on 3M deposits in each quarter, while it boosts the banking system's liquidity through FX swap auctions. As a result of these measures, short-term money market interest rates sank near zero, and the 3M BUBOR rate dropped to 25 basis points.

Russia is slow to recover from the recent years' recession. Its GDP contracted by 0.3% in whole year 2016. There is a dichotomy in its economic developments. The weaker RUB, the surge in oil production and the stabilizing oil prices helped its industrial output grow. On the other hand, the falling real incomes and the tight lending conditions dented consumption and investment in 2016 too, and consumption could not pick up even in the fourth quarter. The RUB bottomed out in January 2016 (leading the USD/RUB near 86); since then it has firmed to near-60 levels. The RUB's stabilization and the falling domestic demand led to lower inflation: prices' growth slowed from its highest of 15.9% in March 2015, to 5% by January 2017. The Central Bank of Russia follows strict monetary policy to ensure that inflation draws near its 4% target. To that end, the forward-looking real interest rate is kept at high level; the base rate is at 10%. Budget deficit amounted to 3.5% of GDP in 2016. The tight fiscal control may allow the deficit to gradually shrink; a part of oil revenues is spent on replenishing the fiscal reserve funds, which are becoming rather exhausted. Russia's current account surplus dropped to 1.7% of GDP in 2016 due to the lower oil revenues; the external surplus may improve in 2017 again as energy prices recover. Capital withdrawal significantly decelerated in 2016, thus Russia's external financing remained on a stable footing. Retail loan volumes slightly rose in 2016, but mostly because of the 13% y-o-y increase in mortgage loans until November owing to a subsidy programme. Consumer loans' volume stabilized in the second half-year of 2016, but it was still 6% lower y-o-y in November 2016. The expected growth in households' income may bring back demand for loans, but the high real interest rates may keep households' willingness to save at elevated level.

Ukraine's economy slowly stabilized in the first three quarters of 2016, and its fourth-quarter growth has far exceeded expectations. Ukraine's GDP expanded by 4.7% comparing with the same period of the last year (+2% quarter-to-quarter) in the fourth quarter thanks to the continued rise in consumption expenditure and the soaring constructions, which improved economic outlook compared to the previous quarters. Thus the Ukrainian economy's 1.6% growth rate in the whole of 2016 has beaten expectations. However, geopolitical risks are still high, as proved by the mounting tension at the beginning of 2017 in the East. In the fourth quarter of 2016 industrial production grew by 3.3%, retail sales by 4.3%, and construction by 13.6% y-o-y. Inflation slowed from 43.3% in December 2015 to 12.4% in December 2016 due to the fading of the previous year's base effects, low domestic demand, better-than-expected agricultural production, and stabilizing inflation expectations. The rapid fall in inflation caused the National Bank of Ukraine to cut its base rate from 22% to 14% by October 2016. The hryvnia weakened against the USD by 20% in the first quarter, but in the second quarter it appreciated from 26.2 to 24.8 due to the low inflation pressure and the high base rate. From November the hryvnia depreciated to 27 against the USD, due to the appreciating dollar and the uncertainties surrounding the International Monetary Fund ("IMF") programme. In the second quarter the central bank relaxed some of its FX restrictions and it may abolish all of them if its FX reserves reach USD 20 billion. This has not happened yet. There has been no progress in the IMF programme since October 2016, but according to the IMF and Ukraine's government officials the third review of the programme could be completed soon and the fourth tranche could be disbursed by the end of February.

On 15 December 2015 the **Hungarian Parliament** amended the Act No. CCXVII of 2015, which contained amendments to the special tax on financial institutions. Pursuant to the amended law the HUF 34.9 billion special banking tax paid by the Group's Hungarian members in 2015 declined to HUF 16.1 billion in 2016. The total annual amount of the banking tax payable in 2016 was booked in one sum in the first quarter of 2016.

From 2017 the base of the Hungarian banking tax is the adjusted balance sheet total at the actual calendar year minus two years (i.e. for the 2017 banking tax calculation the end-2015 adjusted total assets must be used). The applicable upper tax rate has been moderated to 0.21%. Furthermore, the contribution tax introduced in 2006 was entirely abolished. In 2016 its annual amount was HUF 2 billion.

From 2016 the Government significantly eased the conditions of purchasing new and used flats and widened the range of eligible families within the framework of the Housing Subsidy for Families (Hungarian abbreviation: "CSOK"). At OTP Core the State subsidized housing loan applications increased substantially (+127% year-to-year) due to the demand generated by the Housing Subsidy for Families. Thus, within the total housing loan applications the demand for the subsidized housing loans represented 44% (versus 35% in 2015). In 2016 close to 10,500 applications were registered with a value of over HUF 34 billion. Applicants also combined CSOK with subsidized or market-based loan applications in the amount of HUF 47 billion.

The NBH launched the third phase of the Funding for Growth Scheme ("FGS") from the beginning of 2016. According to the data published by the NBH on 3 January 2017 the Hungarian credit institutions participating in the scheme had contracted for loans in the amount of HUF 473 billion in 2016 under the FGS, of which OTP's share represented HUF 74 billion. In October 2016 NBH decided about applying more flexible conditions for utilizing FGS loan facilities, and also extended the deadline to draw down loans under the FGS by 6 months (until 29 June 2018). In November the Monetary Council decided to extend the closing date for conclusion of loan contracts until 31 March 2017.

Effective from 1 January 2017 the Hungarian corporate tax rate was cut uniformly to 9% and the move implied revaluation of deferred tax assets and liabilities at Hungarian Group members. These revaluations had a total impact of –HUF 2.7 billion stemming from two components: on one hand there was a –HUF 6.1 billion profit and loss impact booked among the adjustment items.

Also, the revaluation impact booked directly against equity in the fourth quarter of 2016 is +HUF 3.4 billion. This item is owing to the revaluation of deferred tax liabilities related to the mark-to-market valuation gains of available-for-sale securities booked directly against equity.

In **OTP Bank Romania S.A.,** its own CHF mortgage loan conversion programme that started on 9 December 2015 was completed with around 73% of the eligible clients participating by 31 August 2016 (i.e. it involved about 7,000 individual contracts). On 13 May 2016 the so-called 'walk-away' law came into effect. Accordingly, eligible borrowers might simply return the property to the banks in exchange for getting rid of the mortgage loan. So far the interest was fairly benign: by 31 December 269 clients applied for the scheme (with a gross volume of RON 83 million). OTP Bank Romania has already created the necessary individual and collective provisions. On 25 October 2016 the Romanian Constitutional Court declared several parts of the law unconstitutional and ruled the issue into the competence of local courts to deal with the insolvency and unforeseen developments issues of clients.

On 18 October 2016 the Romanian Parliament passed a law requiring banks to convert all mortgages originated in CHF into local currency at rates prevailing at origination, however on 24 October the Romanian Government sent the law to the Constitutional Court for review, consequently the President has not signed the Act either. On 7 February 2017 the Constitutional Court declared the Act as a whole unconstitutional.

In Croatia the conversion programme of retail CHF loans (into EUR) with discount started in the fourth quarter of 2015, in line with the relevant Act. By the end of September 2016 the programme has been basically completed with 87% of the eligible portfolio being converted.

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INDEPENDENT AUDITOR'S REPORT

To the shareholders and the Board of Directors of OTP Bank Plc.

Opinion

We have audited the separate financial statements of OTP Bank Plc. (the „Bank") for the year 2016 which comprise the separate statement of financial position as at December 31, 2016 – which shows total assets of HUF 7,251,756 million – and the related separate statement of recognized income, separate statement of comprehensive income – which shows a net profit for the year of HUF 172,378 million –, the separate statement of changes in shareholders' equity and separate statement of cash-flows for the year then ended, and the notes to the separate financial statements including a summary of significant accounting policies.

In our opinion, the accompanying separate financial statements give a true and fair view of the financial position of OTP Bank Plc. as at December 31, 2016, and its financial performance and its cash-flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Basis for the opinion

We conducted our audit in accordance with the Hungarian National Standards on Auditing and the effective Hungarian laws and other regulations on audits. Our responsibilities under these standards are further described in the "*The auditor's responsibilities for the audit of the separate financial statements*" section of our report.

We are independent of the Bank in compliance with the Hungarian ethical requirements pertaining to our audit of the separate financial statements, and we have fulfilled our other ethical responsibilities in accordance with the same ethical requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the separate financial statements of the current period. These matters were addressed in the context of our audit of the separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the matter
Impairment of loan receivables	
(See notes 8., 23., and 27.1. of the notes to the separate financial statements for the details) The net value of loans to customers in an amount of HUF 1,902,937 million comprise 26.2% of the total assets (gross book value of HUF 1,988,117 million), the relevant impairment charge recorded in the current year was HUF 13,632 million. The determination of impairment of loans requires application of professional judgement and use of subjective assumptions by management in case of both the application of portfolio based collective impairment models, and determination of individual specific impairment of loans. The most significant assumptions applied in provisioning calculation are the following - valuation of collaterals, - estimated time to realize collaterals, - probability of default, - estimation of future cash-flows expected to be realized. Based on the significance of the above described circumstances the calculation of impairment of loan receivables was considered as a key audit matter.	The relevant audit procedures performed by us included the following: - evaluating internal controls relating to monitoring of loans and calculating and recording of impairment, - sample based testing of specific loan impairments, including the review of consideration and valuation of collaterals and estimations of expected future cash-flows, - assessing the appropriateness of collective provisioning models, and review of the assumptions and management estimates applied and parameters, including comparison with historical data, and recalculation of impairment charge with the involvement of our experts.

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Key audit matter	How our audit addressed the matter
Valuation of investments	
(See note 9. of the notes to the separate financial statements for the details) The Bank performed several acquisitions in prior years, and as a result of these acquisitions a net amount of HUF 668,869 million investments presented in the separate statement of financial position. As required by the applicable accounting standards, management conducts regular impairment tests (at least annually) to assess whether there is a need to record impairment with respect to the investments. The Bank applies the DCF (discounted cash-flow) and the EVA (economic value added) methods to determine the recoverable amounts in the impairment tests. These methods are based on several material assumptions and the professional judgement of management (e.g. discount rates applied, growth rates, cost levels, future risk costs, fx rates, etc). Accordingly, the valuation of investments is considered to be a key audit matter.	In our audit procedures on the impairment test of investments we focused on the assessing of the appropriateness of the assumptions applied by management. We reviewed the valuation models applied by management together with the applied assumptions with the involvement of our valuation experts. We examined whether the plans are in accordance with historical results, and performed sensitivity analysis on the key parameters of the models when needed. We also audited the appropriate application of the relevant accounting standards, the related journal entries and disclosures.

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Key audit matter	How our audit addressed the matter
Valuation of complex financial instruments (including derivatives) and application of hedge accounting	
(See note 38. of the notes to the separate financial statements for the details) The Bank has several complex financial instruments (including derivatives) of which valuation is based on complex models, and the valuation also involves significant management estimates. The input data used in the valuation models are based on market prices and also other market based and non-market based information. The most significant input data applied by the Bank in its fair valuation models are the estimations of forward rates and estimation of yield curves using financial-mathematical models, which inputs are used by the Bank to value derivatives and complex derivatives to manage market risks (foreign exchange risks, interest rate risks, etc.). The recognition and valuation of transactions under hedge accounting in accordance with the Bank's risk management strategy, together with the required assessment of hedge effectiveness is also an area of high complexity. Based on the significance of the above described circumstances the valuation of financial instruments and the hedge accounting were considered as a key audit matter.	We tested the operating effectiveness of the key internal controls implemented by the Bank relating to fair value measurement of financial instruments. We analyzed the appropriateness of the valuation models applied by the Bank, tested the accuracy of input data and the applied assumptions including any management estimates and financial-mathematical models. We tested the fair value measurement of the financial instruments on a sample basis, and examined whether their accounting is in line with the applicable accounting standards. We reviewed the hedge documentation (which includes the risk management strategy) of the transactions involved in hedge accounting, together with the assessment of hedge effectiveness and their accounting treatment, whether it is in line with the applicable accounting standards. We also examined whether the disclosures relating to financial instruments are appropriate.

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Other information

Management is responsible for the other information. Other information comprises the information included in the sections called "Management's Analysis" and "Corporate Governance" of the annual report which we obtained prior to the date of this auditors' report and the sections called "Message to the shareholders" and "Macroeconomic and financial environment in 2016" of the annual report which are expected to be made available to us after that date, but does not include the separate financial statements and our auditor's report thereon. Our opinion on the separate financial statements provided in the section of our report entitled "Opinion" does not apply to the other information and we do not express any form of assurance conclusion thereon.

Our responsibility in connection with our audit of the separate financial statements is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the separate financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Based on the information obtained about the Group and its environment, we must report on whether we became aware of any material misstatements in the other information that we obtained prior to the date of this auditor's report and, if so, on the nature of such material misstatements. We have nothing to report in this regard.

When we read the sections of the annual report that were not yet made available to us until the date of this report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of management and those charged with governance for the separate financial statements

Management is responsible for the preparation and fair presentation of the separate financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the separate financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

The auditor's responsibilities for the audit of the separate financial statements

Our objectives during the audit are to obtain reasonable assurance about whether the separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue, on the basis of the above, an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Hungarian National Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error, and they are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these separate financial statements.

As part of an audit in accordance with the Hungarian National Standards on Auditing, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the separate financial statements or, if such disclosures are inadequate, to modify the opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in the Bank's internal control that we identify during the audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is the signatory of the report.

Budapest, March 16, 2017

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Nagyváradiné Szépfalvi Zsuzsanna

Deloitte Auditing and Consulting Ltd.
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Statement of financial position

(separate, based on IFRS, as at 31 December 2016, in HUF million)

	Note	2016	2015
Cash, amounts due from banks and balances with the National Bank of Hungary	4	928,846	1,326,197
Placements with other banks, net of allowance for placement losses	5	915,654	647,724
Financial assets at fair value through profit or loss	6	271,516	252,140
Securities available-for-sale	7	1,484,522	1,462,660
Loans, net of allowance for loan losses	8	1,902,937	1,679,184
Investments in subsidiaries, associates and other investments	9	668,869	657,531
Securities held-to-maturity	10	858,150	824,801
Property and equipment	11	62,361	63,440
Intangible assets	11	27,767	32,438
Investment properties	12	2,267	2,294
Other assets	13	128,867	147,967
TOTAL ASSETS		**7,251,756**	**7,096,376**
Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks	14	646,271	829,122
Deposits from customers	15	4,745,051	4,323,239
Liabilities from issued securities	16	104,103	150,231
Financial liabilities at fair value through profit or loss	17	96,668	144,592
Other liabilities	18	336,882	300,027
Subordinated bonds and loans	19	110,358	266,063
TOTAL LIABILITIES		**6,039,333**	**6,013,274**
Share capital	20	28,000	28,000
Retained earnings and reserves	21	1,193,132	1,064,255
Treasury shares	22	(8,709)	(9,153)
TOTAL SHAREHOLDERS' EQUITY		**1,212,423**	**1,083,102**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**7,251,756**	**7,096,376**

Budapest, 16 March 2017

The accompanying notes to separate financial statements on pages 196 to 267 form an integral part of these separate financial statements.

Statement of recognized income

(separate, based on IFRS, for the year ended 31 December 2016, in HUF million)

	Note	2016	2015
Interest Income			
Loans		125,110	129,575
Placements with other banks, net of allowance for placement losses		102,317	151,938
Securities available-for-sale		35,766	50,655
Securities held-to-maturity		41,327	39,973
Amounts due from banks and balances with National Bank of Hungary		9,830	26,574
Rental income for operation of investment properties		60	60
Total Interest Income		**314,410**	**398,775**
Interest Expense			
Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks		103,633	152,613
Deposits from customers		22,853	29,744
Liabilities from issued securities		1,329	2,091
Subordinated bonds and loans		13,721	16,686
Expenses from operation of investment properties		35	35
Total Interest Expense		**141,571**	**201,169**
NET INTEREST INCOME		**172,839**	**197,606**
Provision for impairment on loan and placement losses	5, 8, 23	13,632	39,548
NET INTEREST INCOME AFTER PROVISION FOR IMPAIRMENT ON LOAN AND PLACEMENT LOSSES		**159,207**	**158,058**
Income from fees and commissions	24	189,731	186,030
Expenses from fees and commissions	24	26,254	24,304
Net profit from fees and commissions		**163,477**	**161,726**
Foreign exchange gains		5,075	13,698
Gains on securities, net		44,999	24,398
Gains on derivative instruments, net	37	656	1,523
Dividend income	9	90,467	58,597
Other operating income	25	8,583	8,713
Net other operating expenses	25	(28,851)	(131,179)
from this: provision for impairment on investments in subsidiaries	9	(48,136)	(47,470)
from this: release of provision on contingent liabilities due to regulations related to customer loans	25	1,598	42,529
Net operating income/(expense)		**120,929**	**(24,250)**
Personnel expenses	25	88,720	86,769
Depreciation and amortization	25	21,872	21,320
Other administrative expenses	25	139,547	141,091
Other administrative expenses		**250,139**	**249,180**
PROFIT BEFORE INCOME TAX		**193,474**	**46,354**
Income tax expense/(benefit)	26	21,096	(3,291)
NET PROFIT FOR THE YEAR		**172,378**	**49,645**
Earnings per share (in HUF)			
Basic	**36**	**619**	**182**
Diluted	**36**	**619**	**181**

Statement of comprehensive income

(separate, based on IFRS, for the year ended 31 December 2016, in HUF million)

	Note	2016	2015
NET PROFIT FOR THE YEAR		**172,378**	**49,645**
Items that may be reclassified subsequently to profit or loss			
Fair value adjustment of securities available-for-sale		1,951	(9,970)
Deferred tax (19%) related to securities available-for-sale	26	(371)	1,894
Effect of the tax rate-modification related to securities available-for-sale (19%→9%)	26	5,758	–
TOTAL		**7,338**	**(8,076)**
NET COMPREHENSIVE INCOME		**179,716**	**41,569**

The accompanying notes to separate financial statements on pages 196 to 267 form an integral part of these separate financial statements.

Statement of cash-flows

(separate, based on IFRS, for the year ended 31 December 2016, in HUF million)

OPERATING ACTIVITIES	Note	2016	2015
Profit before income tax		**193,474**	**46,354**
Depreciation and amortization		21,907	21,355
Provision for impairment on loan and placement losses	5, 8, 23	13,632	39,548
Provision for impairment on investments in subsidiaries	9	48,136	47,470
(Release of provision)/provision for impairment on other assets	13	(669)	2,141
Release of provision on off-balance sheet commitments and contingent liabilities	18	(36,114)	(4,185)
Share-based payment	29	3,530	3,810
Unrealised losses on fair value adjustment of securities available-for-sale and held for trading		(9,970)	(12,096)
Unrealised losses on fair value adjustment of derivative financial instruments		(14)	(13,701)
Net changes in assets and liabilities in operating activities			
Changes in financial assets at fair value through profit or loss		(77,004)	4,452
Changes in financial liabilities at fair value through profit or loss		36,932	(32,611)
Net (increase)/decrease in loans, net of allowance for loan losses		(248,936)	100,464
Decrease/(increase) in other assets, excluding advances for investments and before provisions for losses		3,772	(43,682)
Net increase in deposits from customers		421,812	88,089
Increase in other liabilities		49,790	56,111
Net decrease in the compulsory reserve established by the National Bank of Hungary		38,759	47,712
Dividends received		(90,467)	(58,597)
Income tax paid		(264)	(3,823)
Net cash provided by operating activities		**368,306**	**288,811**
Interest received		301,157	390,187
Interest paid		(142,779)	(199,393)
INVESTING ACTIVITIES			
Net (increase)/decrease in placements with other banks before allowance for placement losses		(267,933)	64,385
Purchase securities available-for-sale		(405,226)	(652,482)
Proceeds from sale of securities available-for-sale		385,345	404,592
Increase in investments in subsidiaries		(59,474)	(100,792)
Decrease in investments in subsidiaries		-	-
Dividends received		90,260	58,597
Purchases of securities held-to-maturity		(77,354)	(229,114)
Decrease in securities held-to-maturity		46,974	70,395
Purchases of property, equipment and intangible assets		(30,906)	(37,510)
Proceeds from disposal to property, equipment and intangible assets		11,907	17,306
Net decrease in advances for investments included in other assets		5	3
Net cash used in investing activities		**(306,402)**	**(404,620)**
FINANCING ACTIVITIES			
Net decrease in amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks		(182,851)	(313,369)
Cash received from issuance of securities		26,856	51,389
Cash used for redemption of issued securities		(55,284)	(63,473)
Decrease in subordinated bonds and loans		(155,705)	(28,549)
Payments to ICES holders	21	(3,578)	(4,133)
Purchases of Treasury shares		12,426	24,641
Sales of Treasury shares		(16,208)	(34,093)
Dividends paid		(46,152)	(40,473)
Net cash used in financing activities		**(420,496)**	**(408,060)**
Net decrease in cash and cash equivalents		**(358,592)**	**(523,869)**
Cash and cash equivalents at the beginning of the year		**1,238,858**	**1,762,727**
Cash and cash equivalents at the end of the year		**880,266**	**1,238,858**
Analysis of cash and cash equivalents:			
Cash, amounts due from banks and balances with the National Bank of Hungary		1,326,197	1,897,778
Compulsory reserve established by the National Bank of Hungary		(87,339)	(135,051)
Cash and cash equivalents at the beginning of the year		**1,238,858**	**1,762,727**
Cash, amounts due from banks and balances with the National Bank of Hungary	4	928,846	1,326,197
Compulsory reserve established by the National Bank of Hungary	4	(48,580)	(87,339)
Cash and cash equivalents at the end of the year		**880,266**	**1,238,858**

The accompanying notes to separate financial statements on pages 196 to 267 form an integral part of these separate financial statements.

Statement of changes in shareholders' equity

(separate, based on IFRS, for the year ended 31 December 2016, in HUF million)

	Note	Share Capital	Capital reserve	Share-based payment reserve	Retained earnings and reserves	Option reserve	Treasury Shares	Total
Balance as at 1 January 2015		**28,000**	**52**	**20,897**	**1,104,723**	**(55,468)**	**(7,073)**	**1,091,131**
Net profit for the year		–	–	–	49,645	–	–	49,645
Other comprehensive income		–	–	–	(8,076)	–	–	(8,076)
Share–based payment	29	–	–	3,810	–	–	–	3,810
Payments to ICES holders	21	–	–	–	(3,356)	–	–	(3,356)
Sale of treasury shares	22	–	–	–	–	–	24,641	24,641
Loss on sale of treasury shares		–	–	–	(7,372)	–	–	(7,372)
Acquisition of treasury shares	22	–	–	–	–	–	(26,721)	(26,721)
Dividend for the year 2014		–	–	–	(40,600)	–	–	(40,600)
Balance as at 31 December 2015		**28,000**	**52**	**24,707**	**1,094,964**	**(55,468)**	**(9,153)**	**1,083,102**
Net profit for the year		–	–	–	172,378	–	–	172,378
Other comprehensive income		–	–	–	7,338	–	–	7,338
Share–based payment	29	–	–	3,530	–	–	–	3,530
Payments to ICES holders	21	–	–	–	(3,943)	–	–	(3,943)
Sale of treasury shares	22	–	–	–	–	–	12,426	12,426
Loss on sale of treasury shares		–	–	–	(4,226)	–	–	(4,226)
Acquisition of treasury shares	22	–	–	–	–	–	(11,982)	(11,982)
Dividend for the year 2015		–	–	–	(46,200)	–	–	(46,200)
Balance as at 31 December 2016		**28,000**	**52**	**28,237**	**1,220,311**	**(55,468)**	**(8,709)**	**1,212,423**

The accompanying notes to separate financial statements on pages 196 to 267 form an integral part of these separate financial statements.

* See Note 18.

NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

NOTE 1: ORGANIZATION AND BASIS OF FINANCIAL STATEMENTS

1.1 General information

OTP Bank Plc. (the "Bank" or "OTP Bank") was established on 31 December 1990, when the previously State-owned company was transformed into a limited liability company.

The Bank's registered office address is 16 Nádor Street, Budapest 1051.

In 1995, the shares of the Bank were listed on the Budapest and the Luxembourg Stock Exchanges and were also listed on the SEAQ board on the London Stock Exchange and PORTAL in the USA.

These financial statements were approved by the board of directors and authorised for issue on 17 March 2017.

	2016	2015
The structure of the Share capital by shareholders:		
Domestic and foreign private and institutional investors	97%	97%
Employees	2%	2%
Treasury shares	1%	1%
Total	**100%**	**100%**

The Bank provides a full range of commercial banking services through a nationwide network of 367 branches in Hungary.

	2016	2015
Number of the employees of the Bank:		
Number of employees	7,969	7,911
Average number of employees	7,836	7,940

1.2 Accounting

The Bank maintains its accounting records and prepares its statutory accounts in accordance with the commercial, banking and fiscal regulations prevailing in Hungary.

The presentation currency of the Bank is the Hungarian Forint ("HUF").

Some of the accounting principles prescribed for statutory purposes are different from those generally applied under International Financial Reporting Standards ("IFRS") as adopted by the European Union (the "EU"). Due to the fact that the Bank is listed on international and national stock exchanges, the Bank is obliged to present its financial position in accordance with the IFRS EU. Certain adjustments have been made to the Bank's Hungarian separate statutory accounts (see Note 39), in order to present the separate financial position and results of operations of the Bank in accordance with all standards and interpretations approved by the International Accounting Standards Board ("IASB").

The separate financial statements have been prepared in accordance with IFRS as adopted by the EU. IFRS as adopted by the EU do not currently differ from IFRS as issued by the IASB, except for portfolio hedge accounting under IAS 39 Financial Instruments: Recognition and Measurement ("IAS 39") which has not been approved by the EU. As the Bank does not apply portfolio hedge accounting under IAS 39, there would be no impact on these separate financial statements, had it been approved by the EU before the preparation of these financial statements.

1.2.1 The effect of adopting new and revised International Financial Reporting Standards effective from 1 January 2016

The following standards, amendments to the existing standards and interpretations issued by the IASB and adopted by the EU are effective for the current period:

- Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 12 "Disclosure of Interests in Other Entities" and IAS 28 "Investments in Associates and Joint Ventures" – Investment Entities: Applying the Consolidation Exception – adopted by the EU on 22 September 2016 (effective for annual periods beginning on or after 1 January 2016).
- Amendments to IFRS 11 "Joint Arrangements" – Accounting for Acquisitions of Interests in Joint Operations – adopted by the EU on 24 November 2015 (effective for annual periods beginning on or after 1 January 2016).
- Amendments to IAS 1 "Presentation of Financial Statements" – Disclosure Initiative – adopted by the EU on 18 December 2015 (effective for annual periods beginning on or after 1 January 2016),
- Amendments to IAS 16 "Property, Plant and Equipment" and IAS 38 "Intangible Assets" – Clarification of Acceptable Methods of Depreciation and Amortisation – adopted by the EU on 2 December 2015 (effective for annual periods beginning on or after 1 January 2016),
- Amendments to IAS 16 "Property, Plant and Equipment" and IAS 41 "Agriculture" – Bearer Plants – adopted by the EU on 23 November 2015 (effective for annual periods beginning on or after 1 January 2016),
- Amendments to IAS 19 "Employee Benefits" – Defined Benefit Plans: Employee Contributions – adopted by the EU on 17 December 2014 (effective for annual periods beginning on or after 1 February 2015),
- Amendments to IAS 27 "Separate Financial Statements" – Equity Method in Separate Financial Statements – adopted by the EU on 18 December 2015 (effective for annual periods beginning on or after 1 January 2016).
- Amendments to various standards "Improvements to IFRSs (cycle 2010–2012)" resulting from the annual improvement project of IFRS (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38) primarily with a view to removing inconsistencies and clarifying wording – adopted by the EU on 17 December 2014 (amendments are to be applied for annual periods beginning on or after 1 February 2015),
- Amendments to various standards "Improvements to IFRSs (cycle 2012–2014)" resulting from the annual improvement project of IFRS (IFRS 5, IFRS 7, IAS 19 and IAS 34) primarily with a view to removing inconsistencies and clarifying wording – adopted by the EU on 15 December 2015 (amendments are to be applied for annual periods beginning on or after 1 January 2016).

The adoption of these amendments to the existing standards and interpretations has not led to any changes in the Bank's accounting policies.

1.2.2 New and revised Standards and Interpretations issued by IASB and adopted by the EU but not yet effective

At the date of authorisation of these financial statements the following standards, amendments to the existing standards and interpretations issued by IASB and adopted by the EU were in issue but not yet effective:

- IFRS 9 "Financial Instruments" – adopted by the EU on 22 November 2016 (effective for annual periods beginning on or after 1 January 2018),
- IFRS 15 "Revenue from Contracts with Customers" and amendments to IFRS 15

"Effective date of IFRS 15" – adopted by the EU on 22 September 2016 (effective for annual periods beginning on or after 1 January 2018).

The adoption of IFRS 15 would have no significant impact on the separate financial statements.
The application of IFRS 9 might have significant impact on the Bank's financial statements, the Bank analysed the impact after the adoption of the standard by EU.

IFRS 9 "Financial Instruments" is a replacement for IAS 39 "Financial Instruments: Recognition and Measurement" contains requirements relating to the recognition and measurement, impairment, derecognition and hedge accounting in general.

OTP Bank started its preparation for IFRS 9 during 2016 led by OTP Bank's Risk Management and Finance Divisions. The preparations cover the key challenges that the Group faces with the new standard.
The identification of gaps between its currently used methodologies and the IFRS 9 requirements in classification and measurement, impairment and hedge accounting was completed.

Classification and measurement

IFRS 9 introduces a new approach for the classification of financial assets driven by cash flow characteristics and the business model in which an asset is held. This single, principle-based approach replaces existing rule-based requirements. The Bank recognizes the financial liabilities on amortized cost except in those cases when the standard requires otherwise, like derivative financial instruments which are recognized on fair value through profit or loss. Preliminary analysis of the business models and contractual cash flows on the Bank's significant portfolios have been performed to determine products and financial instruments that will be measured at amortized cost, at fair value through profit or loss or at fair value through other comprehensive income.

Hedge accounting

IFRS 9 introduces a substantially reformed model for hedge accounting, with enhanced disclosures about risk management activity. The new model aligns accounting treatment with risk management activities, enabling entities to better reflect these activities in their financial statements. In addition, users of the financial statements will be provided with better information about risk management and the effect of hedge accounting on the financial statements.

Impairment

IFRS 9 introduces a new, expected-loss impairment model that requires a more timely recognition of credit losses. The standard requires entities to account for expected credit losses from the moment when financial instruments are first identified.

The use of a new, three stage model is being implemented for IFRS 9 purposes. The new impairment methodology is going to be used to classify financial instruments in order to determine whether credit risk has significantly increased since initial recognition and able to identify credit-impaired assets. For instruments with credit-impairment or significant increase of credit risk lifetime expected losses are going to be recognized. Assets where no significant increase of credit risk is identified will remain to be provisioned based on a 12-month expected loss methodology.
For purchased or originated credit-impaired financial assets the same lifetime expected loss methodology will be extended in order to be able to capture the cumulative changes in lifetime expected credit losses since the initial recognition as a credit-impaired instrument.
The Bank is considering the use of a simplified impairment approach for trade receivables, contract assets and lease receivables.

OTP Bank has started to further improve its risk management definitions, processes and methodological analysis in line with the expectations of IFRS 9. The Bank has started developing the methodology for the identification of significant increase of credit risk and the calculation of expected credit losses through the use IFRS 9 compliant risk parameters.

Based on the gap analysis and the changes in methodology the main principles regarding the IT solutions for IFRS 9 implementation have been laid down. Preliminary specifications have been completed and IT implementation is set to be completed in 2017.

The quantitative impact of IFRS 9 is going to be determined in the course of 2017 when all the details of the classification and measurement and impairment methodologies become finalized.

1.2.3 Standards and Interpretations issued by IASB but not yet adopted by the EU

- IFRS 14 "Regulatory Deferral Accounts" (effective for annual periods beginning on or after 1 January 2016) – the European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard,
- IFRS 16 "Leases" (effective for annual periods beginning on or after 1 January 2019). Relating to the adoption of the IFRS 16 Leases standard, the Bank is in a position of lessor, and doesn't expect significant impact due to the application, however detailed impact analysis has not been performed yet.
- Amendments to IFRS 2 "Share-based payment" – Classification and Measurement of Share-based Payment Transactions (effective for annual periods beginning on or after 1 January 2018).
- Amendments to IFRS 4 "Insurance contracts" – Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (effective for annual periods beginning on or after 1 January 2018, or when IFRS 9 "Financial Instruments" is applied first time).
- Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures" – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date was deferred indefinitely until the research project on the equity method has been concluded),
- Amendments to IFRS 15 "Revenue from Contracts with Customers" – Clarifications to IFRS 15 Revenue from Contracts with Customers (effective for annual periods beginning on or after 1 January 2018),
- Amendments to IAS 7 "Statement of Cash Flows" – Disclosure Initiative (effective for annual periods beginning on or after 1 January 2017),
- Amendments to IAS 12 "Income Taxes" – Recognition of Deferred Tax Assets for Unrealised Losses (effective for annual periods beginning on or after 1 January 2017).
- Amendments to IAS 40 "Investment property" – Transfers of Investment Property (issued on 8 December 2016, effective for annual periods beginning on or after 1 January 2018).
- Amendments to various standards "Improvements to IFRSs (cycle 2014–2016)" resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording (amendments to IFRS 12 are to be applied for annual periods beginning on or after 1 January 2017 and amendments to IFRS 1 and IAS 28 are to be applied for annual periods beginning on or after 1 January 2018),
- IFRIC Interpretation 22 "Foreign Currency Transactions and Advance Consideration (effective for annual periods beginning on or after 1 January 2018).

Hedge accounting regarding the portfolio of financial assets and liabilities, whose principles have not been adopted by the EU, is still unregulated.

According to the Bank's estimates, application of hedge accounting for the portfolio of financial assets or liabilities pursuant to IAS 39: "Financial Instruments: Recognition and Measurement", would not significantly impact the financial statements, if applied as at the balance sheet date.

The adoption of the above presented Amendments and new Standards and Interpretations would have no significant impact on the separate financial statements in the period of initial application.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Significant accounting policies applied in the preparation of the accompanying separate financial statements are summarized below:

2.1 Basis of presentation

These separate financial statements have been prepared under the historical cost convention with the exception of certain financial instruments, which are recorded at fair value. Revenues and expenses are recorded in the period in which they are earned or incurred.
The presentation of separate financial statements in conformity with IFRS requires the Management of the Bank to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as at the date of the financial statements and their reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.
Future changes in economic conditions, business strategies, regulatory requirements, accounting rules and other factors could result in a change in estimates that could have a material impact on future separate financial statements.

2.2 Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into HUF that is the presentation currency, at exchange rates quoted by the National Bank of Hungary ("NBH") as at the date of the separate financial statements. Income and expenses arising in foreign currencies are converted at the rate of exchange on the transaction date. Resulting foreign exchange gains or losses are recorded to the separate statement of recognized income.

2.3 Consolidated financial statements

These financial statements present the separate financial position and results of operations of the Bank. Consolidated financial statements are currently being prepared by the Bank and consolidated net profit for the year and shareholders' equity differs significantly from that presented in these separate financial statements.
See Note 2.4 for the description of the method of accounting for investments in subsidiaries and associated companies in these separate financial statements.
The consolidated financial statements and the separate financial statements are published on the same date. As the ultimate parent, OTP Bank is preparing consolidated financial statement of OTP Group.

2.4 Investments in subsidiaries, associated companies and joint ventures

Investments in subsidiaries comprise those investments where OTP Bank, through direct and indirect ownership interest, controls the investee. Control is achieved when the Bank has power over the investee, is exposed or has rights, to variable returns from its involvement with the investee and has the ability to use its power to affect its returns.
Investments in subsidiaries are recorded at the cost of acquisition, less impairment for permanent diminution in value, when

appropriate. After initial measurement investments in subsidiaries are measured at cost, in the case of foreign currency denominated investments for the measurement the Bank uses the exchange rate at the date of transaction.
Associated companies and joint ventures where the Bank has the ability to exercise significant influence are accounted for at cost.
Impairment is determined based on the future economic benefits of the subsidiary and macroeconomic factors.
OTP Bank calculates the recoverable amount as fair value (based on discounted cash-flow model) less cost of disposal. The 5 year period explicit cash-flow model serves as a basis for the impairment test by which the Bank defines the impairment need on investment in subsidiaries based on the strategic factors and financial data of its cash-generating units.
OTP Bank in its strategic plan has taken into consideration the cautious recovery of global economic situation and outlook, the associated risks and their possible effect on the financial sector as well as the current and expected availability of wholesale funding.

2.5 Securities held-to-maturity

Investments in securities, traded in active market (with fixed or determinable cash-flows) are accounted for on a settlement date basis and are initially measured at fair value.
At subsequent reporting dates, securities that the Bank has the expressed intention and ability to hold to maturity (securities held-to-maturity) are measured at amortised cost, less any impairment losses recognized to reflect irrecoverable amounts. The annual amortisation of any discount or premium on the acquisition of a held-to-maturity security is aggregated with other investment income receivables over the term of the investment so that the revenue recognized in each period represents a constant yield on the investment. Such securities comprise mainly securities issued by the Hungarian Government and mortgage bonds.

2.6 Financial assets at fair value through profit or loss

2.6.1 Securities held for trading

Investments in securities are accounted for on a settlement date basis and are initially measured at fair value. Securities held for trading are measured at subsequent reporting dates at fair value. Unrealised gains and losses on held for trading securities are recognized in profit or loss and are included in the separate statement of recognized income for the period. The Bank mainly holds these securities to obtain short-term gains consequently realised and unrealised gains and losses are recognized in the net operating income. During 2015 the Bank has switched over to FIFO[1] inventory valuation method from the weighted average method applied for securities held for trading, which had no significant impact on the separate financial statements. Such securities consist of discounted and interest bearing Treasury bills, Hungarian Government bonds, mortgage bonds, corporate bonds, shares in non-financial commercial companies, shares in investment funds, shares in venture capital funds and shares in financial institutions.

2.6.2 Derivative financial instruments

In the normal course of business, the Bank is a party to contracts for derivative financial instruments, which represent a very low initial investment compared to the notional value of the contract and their value depends on value of underlying asset and are settled in the future. The derivative financial instruments used include interest rate forward or swap agreements and currency forward or swap agreements and options. These financial instruments are used by the Bank both for trading purposes and to hedge interest rate risk and currency exposures associated with its transactions in the financial markets.

[1] First In First Out

Derivative financial instruments are accounted for on a trade date basis and are initially measured at fair value and at subsequent reporting dates also at fair value. Fair values are obtained from quoted market prices, discounted cash-flow models and option pricing models as appropriate. OTP Bank adopts multi curve valuation approach for calculating the net present value of future cash-flows – based on different curves used for determining forward rates and used for discounting purposes.
It shows the best estimation of such derivative deals that are collateralised as OTP Bank has almost its entire open derivative transactions collateralised.
OTP Bank completed a change in the calculation methodology of fair value during 2016. Before the methodology change the Bank applied the dirty net present value formula, including any interest accruing on the next interest payment date (dirty price method). Instead of the Bank changed over the clean price method, in the framework of which the clean price is calculated by subtracting the accrued interest from the dirty price. According to the current new methodology, fair value of derivative financial instruments is accounted decomposed; several components are recognized in the separate statement of recognized income according to their economic nature.
Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognized in profit or loss and are included in the separate statement of recognized income for the period. Each derivative deal is determined as asset when fair value is positive and as liability when fair value is negative.

Certain derivative transactions, while providing effective economic hedges under risk management positions of the Bank, do not qualify for hedge accounting under the specific rules of IAS 39 and are therefore treated as derivatives held for trading with fair value gains and losses charged directly to the separate statement of recognized income.

Foreign currency contracts

Foreign currency contracts are agreements to exchange specific amounts of currencies at a specified rate of exchange, at a spot date (settlement occurs two days after the trade date) or at a forward date (settlement occurs more than two days after the trade date).
The notional amount of spot contracts does not represent the actual market or credit risk associated with these contracts. Foreign currency contracts are used by the Bank for risk management and trading purposes.
The Bank's risk management foreign currency contracts were used to hedge the exchange rate fluctuations of loans and deposits denominated in foreign currency.

Foreign exchange swaps and interest rate swaps

The Bank enters into foreign-exchange swap and interest rate swap (IRS) transactions.
The swap transaction is a complex agreement concerning the swap of certain financial instruments, which usually consists of a prompt and one or more forward contracts.
Interest rate swaps obligate two parties to exchange one or more payments calculated with reference to fixed or periodically reset rates of interest applied to a specific notional principal amount (the base of the interest calculation). Notional principal is the amount upon which interest rates are applied to determine the payment streams under interest rate swaps.
Such notional principal amounts are often used to express the volume of these transactions but are not actually exchanged between the counterparties. The Bank's interest rate swap contracts can be hedging or held for trading contracts.

Cross-currency interest rate swaps

The Bank enters into cross-currency interest rate swap (CCIRS) transactions which have special attributes, i.e. the parties exchange the notional amount at the beginning and also at the maturity of the transaction. A special type of these deals is the mark-to-market CCIRS agreements. At this kind of deals the parties – in accordance with the foreign exchange prices – revalue the notional amount during lifetime of the transaction.

Equity and commodity swaps

Equity swaps obligate two parties to exchange more payments calculated with reference periodically reset rates of interest and performance of indices. A specific notional principal amount is the base of the interest calculation. The payment of index return is calculated on the basis of current market price compared to the previous market price. In case of commodity swaps payments are calculated on the basis of the strike price of a predefined commodity compared to its average market price in a period. Equity and commodity swap deals made by the Bank enables both local players to open positions in international capital markets (leading benchmark indices like S&P 500 or commodity futures like WTI Light Crude Oil), without facing the transaction costs of accessing these markets and international players to open positions in domestic equity instruments, without the need of funding these positions. Exposures taken from the clients are hedged on equity or future markets.

Forward rate agreements (FRA)

A forward rate agreement is an agreement to settle amounts at a specified future date based on the difference between an interest rate index and an agreed upon fixed rate. Market risk arises from changes in the market value of contractual positions caused by movements in interest rates.

The Bank limits its exposure to market risk by entering into generally matching or offsetting positions and by establishing and monitoring limits on unmatched positions. Credit risk is managed through approval procedures that establish specific limits for individual counter-parties. The Bank's forward rate agreements were transacted for management of interest rate exposures.

Foreign exchange options

A foreign exchange option is a derivative financial instrument that gives the owner the right to exchange money denominated in one currency into another currency at a pre-agreed exchange rate at a specified future date.

The transaction, for a fee, guarantees a worst-case exchange rate for the futures purchase of one currency for another. These options protect against unfavourable currency movements while preserving the ability to participate in favourable movements.

2.7 Derivative financial instruments designated as a fair value or cash-flow hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges and that prove to be highly effective in relation to the hedged risk, are recorded in the separate statement of recognized income along with the corresponding change in fair value of the hedged asset or liability that is attributable to the specific hedged risk. The ineffective element of the hedge is charged directly to the separate statement of recognized income. The conditions of hedge accounting applied by the Bank are the following: formally designed as hedge, proper hedge documentation is prepared, effectiveness test is performed and based on it the hedge is qualified as effective.

Changes in fair value of derivatives that are designated and qualify as cash-flow hedges and that prove to be highly effective in relation to hedged risk are recognized as reserve in other comprehensive income. Amounts deferred in other comprehensive income are transferred to the separate statement of recognized income and classified as revenue or expense in the periods during which the hedged assets and liabilities effect the separate statement of recognized and comprehensive income for the period. The ineffective element of the hedge is charged directly to the separate statement of recognized income.

The Bank terminates the hedge accounting if the hedging instrument expires or is sold, terminated or exercised, or the hedge no longer meets the criteria for hedge accounting or the Bank revokes the designation.

2.8 Offsetting

Financial assets and liabilities may be offset and the net amount is reported in the statement of financial position when the Bank has a legally enforceable right to set off the recognised amounts and the transactions are intended to be reported in the statement of financial position on a net basis. The Bank does not offset any financial assets and financial liabilities.

2.9 Embedded derivatives

Sometimes, a derivative may be a component of a combined financial instrument that includes a host contract and a derivative (the embedded derivative) affecting cash-flows or otherwise modifying the characteristics of the host instrument. An embedded derivative must be separated from the host instrument and accounted for as a separate derivative if, and only if:

- The economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract;
- A separate financial instrument with the same terms as the embedded derivative would meet the definition of a derivative as a stand-alone instrument; and
- The host instrument is not measured at fair or is measured at fair value but changes in fair value are recognised in other comprehensive income.

2.10 Securities available-for-sale

Investments in securities are accounted for on a settlement date basis and are initially measured at fair value. Available-for-sale securities are measured at subsequent reporting dates at fair value. Unrealised gains and losses on available-for-sale financial instruments are recognized in other comprehensive income, except for interest and foreign exchange gains/losses on monetary items, unless such available-for-sale security is part of an effective hedge. Such gains and losses will be reported when realised in profit or loss for the applicable period. During 2015 the Bank has switched over to FIFO inventory valuation method from the weighted average method applied for securities held for trading, which had no significant impact on the separate financial statements.
Securities available-for-sale consists of Hungarian Government bonds, interest bearing treasury bills, foreign government bonds, mortgage bonds and other securities. Other securities include shares in investment funds and venture capital funds, corporate bonds and foreign securities.

The provision for impairment is calculated based on discounted cash-flow methodology for debt instruments and calculated based on fair value on equity instruments, using the expected future cash-flow and original effective interest rate if there is objective evidence of impairment based on significant or prolonged decrease on fair value.
Available-for-sale securities are remeasured at fair value based on quoted prices or values derived from cash-flow models. In circumstances where the quoted market prices are not readily available, the fair value of debt securities is estimated using the present value of the future cash-flows and the fair value of any unquoted equity instruments are calculated using the EPS ratio.

Those available-for-sale financial assets that do not have a quoted market price and whose fair value cannot be reliably measured by other models mentioned above are measured at cost, less provision for impairment when appropriate. This exception is related only to equity instruments.
Impairment on equity AFS securities is accounted only if there is a significant or prolonged decrease in the market value.
Impairment losses recognised in profit or loss for an investment in an equity instrument classified as AFS securities is not reversed through profit or loss.

2.11 Loans, placements with other banks and allowance for loan and placement losses

Loans and placements with other banks are accounted at amortised cost, stated at the principal amounts outstanding including accrued interest, net of allowance for loan or placement losses, respectively. Transaction fees and charges should adjust the carrying amount at initial recognition and be included in effective interest calculation. Loans and placements with other banks are derecognised when the contractual rights to the cash-flows expire or they are transferred. Interest and amortised cost are accounted using effective interest rate method. When a borrower is unable to meet payments as they fall due or, in the opinion of the Management, there is an indication that a borrower may be unable to meet payments as they fall due, all unpaid interest becomes impaired.

According to IAS 39, initially financial assets shall be recognized at fair value which is usually equal to transaction value of loans and receivables. Initial fair value of loans and receivables lent at interest below market conditions is lower than their transaction price. As a consequence the Bank is deferring the difference between the fair value at initial recognition and the transaction price relating to loans and receivables because input data for measuring the fair values is not available on observable markets.

The amount of allowance is the difference between the carrying amount and the recoverable amount, being the present value of the expected cash-flows, including amounts recoverable from guarantees and collaterals, discounted at the original effective interest rate. Allowance for losses on loans and placements with other banks represent management assessment for potential losses in relation to these activities.

The allowances for loan and placement losses are maintained to cover losses that have been specifically identified. Collective impairment losses of portfolios of loans, for which no objective evidence of impairment has been identified on an individual basis, are maintained to reduce the carrying amount of the portfolios of financial assets with similar credit risk characteristics to their estimated recoverable amounts at the balance sheet date.

The expected cash-flows for portfolios of similar assets are estimated based on historical loss experience. Historical loss experience is the basis for calculating the expected loss, which is adjusted by the loss confirmation period, which represents the average time lag between occurrence of a loss event and confirmation of the loss. This concept enables recognition of those losses that have occurred in the portfolio at the balance sheet date.

If the reason for provisioning is no longer deemed appropriate, the redundant provisioning charge is released into income.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss shall be reversed by adjusting an allowance account. The reversal shall not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed.

Write-offs are generally recorded after all reasonable restructuring or collection activities have taken place and the possibility of further recovery is considered to be remote. The loan is written off against the related account "Provisions for impairment on loan and placement losses" in the statement of recognized income.

OTP Bank applies partial or full write-off for loans based on the definitions and prescriptions of financial instruments in accordance with IAS 39. If OTP Bank has no reasonable expectations regarding a financial asset (loan) to be recovered, it will be written off partially or fully at the time of emergence. A loan will be written off if it has overdued or was terminated by the Bank.

The gross amount and impairment loss of the loans shall be written off in the same amount to the estimated maximum recovery amount while the net carrying value remains unchanged. In these cases there is no reasonable expectation from the clients to complete contractual cash-flows therefore OTP Bank does not accrue interest income in case of partial write-off.
Loan receivables legally demanded from clients are equal to the former gross amount of the loan before the partial write-off.

2.12 Sale and repurchase agreements, security lending

Where debt or equity securities are sold under a commitment to repurchase them at a pre-determined price, they remain on the statement of financial position and the consideration received is recorded in Other liabilities or Amounts due to banks and the Hungarian Government, deposits from the National Bank of Hungary and other banks, or Deposits from customers. Conversely, debt or equity securities purchased under a commitment to resell are not recognized in the statement of financial position and the consideration paid is recorded either in Placements with other banks or Deposits from customers. Interest is accrued evenly over the life of the repurchase agreement.
In the case of security lending transactions the Bank does not recognize or derecognize the securities because it is believed that the transferor retains substantially all the risks and rewards of the ownership of the securities. Only a financial liability or financial receivable is recognized for the consideration amount.

2.13 Property, equipment and intangible assets

Property, equipment and intangible assets are stated at cost, less accumulated depreciation and amortization and impairment, if any.
The depreciable amount (book value less residual value) of the non-current assets must be allocated over their useful lives. Depreciation and amortization are calculated using the straight-line method over the estimated useful lives of the assets based on the following annual percentages:

Intangible assets	
Software	15–33.3%
Property rights	16.7%
Property	1–2%
Office equipment and vehicles	9–33.3%

Depreciation and amortization on properties, equipment and intangible assets starts on the day when such assets are placed into service. At each balance sheet date, the Bank reviews the carrying value of its tangible and intangible assets to determine if there is any indication that those assets have suffered an impairment loss.

If such indication exists, the recoverable amount of the asset is estimated to determine the extent (if any) of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Bank estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where the carrying value of property, equipment, other tangible fixed assets and intangible assets is greater than the estimated recoverable amount, it is impaired immediately to the estimated recoverable amount.

The Bank may conclude contracts for purchasing property, equipment and intangible assets, where the purchase price is settled in foreign currency. By entering into such agreements, firm commitment in foreign currency due on a specified future date arises at the Bank.
Reducing the foreign currency risk caused by firm commitment, forward foreign currency contracts may be concluded to ensure the amount payable in foreign currency on a specified future date on one hand and to eliminate the foreign currency risk arising until settlement date of the contract on the other hand.

In the case of effective hedge the realised profit or loss of hedging instrument is stated as the part of the cost of the hedged asset as it has arisen until recognising the asset and it is tightly connecting to the purchasing.

2.14 Financial liabilities

The financial liabilities are presented within financial liabilities at fair value through profit or loss or financial liabilities measured at amortized costs. In connection to the financial liabilities at fair value through profit or loss, the Bank presents the amount of change in their fair value originated from the changes of market conditions and business environment. Financial liabilities at fair value through profit or loss are either financial liabilities held for trading or they are designated upon initial recognition as at fair value through profit or loss. In the case of financial liabilities measured at amortized cost, fees and commissions related to the origination of the financial liability are recognized through profit or loss during the maturity of the instrument. In certain cases the Bank repurchases a part of financial liabilities (mainly issued securities or subordinated bonds) and the difference between the carrying amount of the financial liability and the amount paid for it is recognized in the net profit or loss for the period and included in other operating income.

2.15 Leases

Assets held under finance leases, which confer rights and obligations similar to those attached to owned assets, are capitalised at their fair value and depreciated over the useful lives of assets. The capital element of each future lease obligation is recorded as a liability, while the interest elements are charged to the separate statement of recognized income over the period of the leases to produce a constant rate of charge on the balance of capital payments outstanding.
Payments made under operating leases are charged to the separate statement of recognized income on a straight-line basis over the life of the lease terms. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognized as an expense in the period in which termination takes place.

2.16 Treasury shares

Treasury shares are shares which are purchased on the stock exchange and the over-the-counter market by the Bank and are presented in the separate statement of financial position at acquisition cost as a deduction from shareholders' equity. Gains and losses on the sale of treasury shares are credited or charged directly to shareholder's equity in the treasury shares. Derecognition of treasury shares is based on the FIFO method.

2.17 Interest income and interest expense

Interest income and expenses are recognised in profit or loss in the period to which they relate, using the effective interest rate method. Interest from loans and deposits are accrued on a daily basis. Interest income and expenses include relevant transaction costs and the amortisation of any discount or premium between the initial carrying amount of an interest-bearing instrument and its amount at maturity calculated on an effective interest rate basis. The Bank recognizes interest income when it is assumed that the interest associated with the transaction will flow to the Bank and the amount of the revenue can be reasonably measured. All interest income and expense arising from loans, placements with other banks, securities held for trading, securities available-for-sale, securities held to maturity and amounts due to banks, deposits from customers, liabilities from issued securities, subordinated bond and loans are presented under these lines of financial statement.

2.18 Fees and Commissions

Fees and commissions are recognised using effective interest method referring to provisions of IAS 39, when they relate and have to be included in the amortised cost model. Certain fees and commissions that are not involved in the amortised cost model are recognised in the separate statement of recognised income on an accrual basis based on IAS 18.

2.19 Dividend income

The Bank recognizes dividend income in the separate financial statements when its right to receive the payment is established.

2.20 Income tax

The annual taxation charge is based on the tax payable under Hungarian fiscal law, adjusted for deferred taxation. Deferred taxation is accounted for using the balance sheet liability method in respect of temporary differences between the tax bases of assets and liabilities and their carrying value for financial reporting purposes, measured at the tax rates that are expected to apply when the asset is realised or the liability is settled. Deferred tax assets are recognized by the Bank for the amounts of income tax that are recoverable in future periods in respect of deductible temporary differences as well as the carryforward of unused tax losses and the carryforward of unused tax credits.

2.21 Off-balance sheet commitments and contingent liabilities

In the ordinary course of its business, the Bank has entered into off-balance sheet commitments such as guarantees, commitments to extend credit, letters of credit and transactions with financial instruments. The provision on off-balance sheet commitments and contingent liabilities is maintained at a level adequate to absorb probable future losses. Management determines the adequacy of the provision based upon reviews of individual items, recent loss experience, current economic conditions, the risk characteristics of the various categories of transactions and other pertinent factors.

The Bank recognizes a provision when it has a present obligation as a result of a past event; it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and a reliable estimate can be made of the obligation.

2.22 Share-based payment and employee benefit

The Bank has applied the requirements of IFRS 2 Share-based Payment.

The Bank issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value at the grant date. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the year, based on the Bank's estimate of shares that will eventually vest. Fair value is measured by use of a binomial model. The expected life used in the model has been adjusted, based on Management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations. The Bank has applied the requirement of IAS 19 Employee Benefits. IAS 19 requires to recognise employee benefits to be paid as a liability and as an expense in financial statements.

2.23 Separate statement of cash-flows

For the purposes of reporting cash-flows, cash and cash equivalents include cash, due from banks and balances with the NBH. Cash-flows from hedging activities are classified in the same category as the item being hedged. The unrealised gains and losses from the translation of monetary items to the closing foreign exchange rates and the unrealised gains and losses from derivative financial instruments are presented net in the statement of cash-flows for the monetary items which were being revaluated.

2.24 Segment reporting

IFRS 8 Operating Segments requires operating segments to be identified on the basis of internal reports about components of the Bank that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segments and to assess their performance.
At separate level, the Management does not separate and makes decisions based on different segments; the segments are identified by the Bank only at consolidated level in line with IFRS 8 paragraph 4. At Group level the segments identified by the Bank are the business and geographical segments.
The Group's operating segments under IFRS 8 are therefore as follows: OTP Core Hungary, Russia, Ukraine, Bulgaria, Romania, Serbia, Croatia, Slovakia, Montenegro, Leasing subsidiaries, Asset Management subsidiaries, other subsidiaries, Corporate Centre.

2.25 Comparative figures

There were no changes in prior period data due to either prior period error or change in accounting policies. In some notes certain amounts in the separate financial statements for the year ended 31 December 2015 have been restructured within the particular note to conform to the current year presentation but these amounts are not significant.

NOTE 3: SIGNIFICANT ACCOUNTING ESTIMATES AND DECISIONS IN THE APPLICATION OF ACCOUNTING POLICIES

The presentation of separate financial statements in conformity with IFRS requires the Management of the Group to make judgements about estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as at the date of the financial statements and their reported amounts of revenues and expenses during the reporting period. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant.
The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognized in the period. Actual results could differ from those estimates. Significant areas of subjective judgements include:

3.1 Impairment on loans and placements

The Bank regularly assesses its loan portfolio for impairment. Management determines the adequacy of the allowances based upon reviews of individual loans and placements, recent loss experience, current economic conditions, the risk characteristics of the various categories of loans and other pertinent factors. Provisioning involves many uncertainties about the outcome of those risks and requires the Management of the Bank to make many subjective judgements in estimating the loss amounts. An impairment loss is incurred when there is objective evidence of impairment due to one or more events that occurred after the initial recognition of the asset ('a loss event'), when the loss has a reliably measurable impact on the expected future cash flows from the financial asset or group of financial assets. Future cash flows are assessed by the Bank on the basis of estimates based on historical parameters. The adopted methodology used for estimating impairment allowances is in line with the further possibilities of accumulations of historic impairment data from the existing information systems and applications. As a consequence, acquiring new data by the Bank could affect the level of impairment allowances in the future.

3.2 Valuation of instruments without direct quotations

Financial instruments without direct quotations in an active market are valued using the valuation model technique. The models are regularly reviewed and each model is calibrated for the most recent available market data. While the models are built only on available data, their use is subject to certain assumptions and estimates (e.g. for correlations, volatilities etc). Changes in the model assumptions may affect the reported fair value of the relevant financial instruments.
IFRS 13 Fair Value Measurement seeks to increase consistency and comparability in fair value measurements and related disclosures through a 'fair value hierarchy'. The hierarchy categorises the inputs used in valuation techniques into three levels. The hierarchy gives the highest priority to (unadjusted) quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The objective of a fair value measurement is to estimate the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under current market conditions.

3.3 Provisions

Provision is recognized and measured based on IAS 37 Provisions, Contingent Liabilities and Contingent Assets. The Bank is involved in a number of ongoing legal disputes. Based upon historical experience and expert reports, the Bank assesses the developments in these cases, and the likelihood and the amount of potential financial losses which are appropriately provided for (see Note 18.)
A provision is recognized by the Bank when it has a present obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

Provision for off-balance sheet items includes provision for litigation, provision for retirement and expected liabilities, for commitments to extend credit, provision for warranties arising from banking activities and provision for Confirmed letter of credit.

NOTE 4: CASH, AMOUNTS DUE FROM BANKS AND BALANCES WITH THE NATIONAL BANK OF HUNGARY (in HUF mn)

	2016	2015
Cash on hand:		
In HUF	88,244	76,320
In foreign currency	11,108	6,483
	99,352	**82,803**
Amounts due from banks and balances with National Bank of Hungary:		
Within one year:		
In HUF	500,225	1,200,884
In foreign currency	329,040	40,818
	829,265	**1,241,702**
Accrued interest	229	1,692
Total	**928,846**	**1,326,197**
Compulsory reserve	**48,580**	**87,339**
Rate of the compulsory reserve*	**2%**	**2%**

NOTE 5: PLACEMENTS WITH OTHER BANKS, NET OF ALLOWANCE FOR PLACEMENT LOSSES (in HUF mn)

	2016	2015
Within one year:		
In HUF	575,564	426,484
In foreign currency	148,659	166,623
	724,223	**593,107**
Over one year:		
In HUF	180,632	40,592
In foreign currency	8,519	12,736
	189,151	**53,328**
Total placements	**913,374**	**646,435**
Accrued interest	2,312	1,318
Provision for impairment on placement losses	(32)	(29)
Total	**915,654**	**647,724**

An analysis of the change in the provision for impairment on placement losses is as follows:

	2016	2015
Balance as at 1 January	**29**	**26**
Provision for the year	3	3
Balance as at 31 December	**32**	**29**

Interest conditions of placements with other banks:

	2016	2015
Placements with other banks in HUF	0%–2.86%	2.35%–5.85%
Placements with other banks in foreign currency	–15%–7.3%	0.02%–10%
Average interest of placements with other banks	1.34%	1.43%

* From 1 December 2016 the rate is 1%.

NOTE 6: FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (in HUF mn)

Securities held for trading:

	2016	2015
Shares	103,537	71,779
Hungarian government interest bearing Treasury Bills	15,639	7,768
Securities issued by credit institutions	13,396	-
Government bonds	10,857	12,613
Hungarian government discounted Treasury Bills	97	366
Mortgage bonds	82	94
Other securities	3,816	510
Subtotal	**147,424**	**93,130**
Accrued interest	516	433
Total	**147,940**	**93,563**

Derivative financial instruments:

	2016	2015
CCIRS and mark-to-market CCIRS*	43,538	102,125
Interest rate swaps	38,413	33,869
Foreign currency swaps	23,385	14,352
Other derivative transactions**	18,240	8,231
Subtotal	**123,576**	**158,577**
Total	**271,516**	**252,140**

Interest conditions and the remaining maturities of securities held for trading are as follows:

	2016	2015
Within one year:		
variable interest	1,845	2,194
fixed interest	22,079	15,188
	23,924	**17,382**
Over one year:		
variable interest	3,111	5
fixed interest	14,037	3,614
	17,148	**3,619**
Non-interest bearing securities	106,352	72,129
Total	**147,424**	**93,130**

	2016	2015
Securities held for trading denominated in HUF	89.82%	99.49%
Securities held for trading denominated in foreign currency	10.18%	0.51%
Securities held for trading total	**100%**	**100%**
Government bonds denominated in HUF	98.09%	99.35%
Government bonds denominated in foreign currency	1.91%	0.65%
Government securities total	**100%**	**100%**
Interest rates on securities held for trading	0.3%–9.5%	0.8%–10%
Average interest on securities held for trading	1.01%	2.42%

* CCIRS: Cross Currency Interest Rate Swap (see Note 2.6.2).
** Incl.: FX, equity, commodity and index futures; FX forward; commodity and equity swap; FRA; FX option (see Note 2.6.2).

NOTE 7: SECURITIES AVAILABLE-FOR-SALE (in HUF mn)

	2016	2015
Government bonds	1,040,541	755,627
Mortgage bonds	266,938	597,226
Other securities	163,949	81,238
listed securities	72,820	10,326
in HUF	36,348	–
in foreign currency	36,472	10,326
non-listed securities	91,129	70,912
in HUF	48,522	58,800
in foreign currency	42,607	12,112
Subtotal	**1,471,428**	**1,434,091**
Accrued interest	13,094	28,569
Securities available-for-sale total	**1,484,522**	**1,462,660**

	2016	2015
Securities available-for-sale denominated in HUF	72%	70%
Securities available-for-sale denominated in foreign currency	28%	30%
Securities available-for-sale total	**100%**	**100%**
Interest rates on securities available-for-sale denominated in HUF	1.25%–11%	2.5%–11%
Interest rates on securities available-for-sale denominated in foreign currency	0.05%–6.4%	0.58%–6.25%
Average interest on securities available-for-sale	2.51%	4.54%

Interest conditions and the remaining maturities of available-for-sale securities can be analysed as follows:

	2016	2015
Within one year:		
variable interest	162,967	324,400
fixed interest	68,058	838,523
	231,025	**1,162,923**
Over one year:		
variable interest	43,631	40,624
fixed interest	1,175,497	201,128
	1,219,128	**241,752**
Non-interest bearing securities	21,275	29,416
Total	**1,471,428**	**1,434,091**

Certain fixed-rate mortgage bonds and other securities are hedged against interest rate risk (see Note 38).

	2016	2015
Net gain reclassified from other comprehensive income to statement of recognized income	11,723	9,818
Fair value of the hedged securities		
Government bonds	853,804	665,228
Mortgage bonds	156,739	317,230
Corporate bonds	27,926	3,256
Total	**1,038,469**	**985,714**

NOTE 8: LOANS, NET OF ALLOWANCE FOR LOAN LOSSES (in HUF mn)

	2016	2015
Short-term loans and promissory notes (within one year)	934,288	1,019,240
Long-term loans and promissory notes (over one year)	1,053,829	754,722
Loans gross total	**1,988,117**	**1,773,962**
Accrued interest	6,155	4,885
Provision for impairment on loan losses	(91,335)	(99,663)
Total	**1,902,937**	**1,679,184**

An analysis of the loan portfolio by currency:

	2016	2015
In HUF	62%	51%
In foreign currency	38%	49%
Total	**100%**	**100%**

Interest rates of the loan portfolio are as follows:

	2016	2015
Loans denominated in HUF, with a maturity within one year	0%–34.6%	4.9%–35%
Loans denominated in HUF, with a maturity over one year	–0.4%–37.5%	1.4%–18.5%
Loans denominated in foreign currency	–0.7%–22.3%	1.2%–10.2%
Average interest on loans denominated in HUF	8.88%	11.24%
Average interest on loans denominated in foreign currency	2.27%	2.64%

An analysis of the gross loan portfolio by type, before provision for impairment on loan losses, is as follows:

	2016		2015	
Retail loans	**631,096**	**32%**	**476,664**	**27%**
Retail consumer loans	272,530	14%	266,643	15%
Retail mortgage backed loans*	211,057	11%	77,960	4%
Micro and small enterprises loans	147,509	7%	132,061	8%
Corporate loans	**1,357,021**	**68%**	**1,297,298**	**73%**
Loans to medium and large corporates	1,323,220	67%	1,277,292	72%
Municipality loans	33,801	1%	20,006	1%
Total	**1,988,117**	**100%**	**1,773,962**	**100%**

An analysis of the change in the provision for impairment on loan losses is as follows:

	2016	2015
Balance as at 1 January	**99,663**	**85,397**
Provision for the year	47,249	69,926
Release of provision	(54,752)	(52,185)
Partial write-off**	(825)	(3,475)
Balance as at 31 December	**91,335**	**99,663**

Provision for impairment on loan and placement losses is summarized as below:

	2016	2015
Provision for impairment on placement losses	3	3
Provision for impairment on loan losses	13,629	39,545
Total	**13,632**	**39,548**

The Bank sells non-performing loans without recourse at estimated fair value to a wholly owned subsidiary, OTP Factoring Ltd. (see Note 30).

* Incl. housing loans.
** See Note 2.11.

NOTE 9: INVESTMENTS IN SUBSIDIARIES, ASSOCIATES, JOINT VENTURES AND OTHER INVESTMENTS (in HUF mn)

	2016	2015
Investments		
Controlling interest (subsidiaries)	1,305,273	1,245,801
Other investments	3,513	3,511
Subtotal	**1,308,786**	**1,249,312**
Provision for impairment	(639,917)	(591,781)
Total	**668,869**	**657,531**

Other investments contain certain securities accounted at cost. These instruments do not have a quoted market price in an active market and whose fair value cannot be reliably measured.

Significant subsidiaries

Investments in companies in which the Bank has a controlling interest (direct/indirect) are detailed below. All companies are incorporated in Hungary unless indicated otherwise:

	2016		2015	
	% Held (direct/indirect)	**Gross book value**	**% Held (direct/indirect)**	**Gross book value**
OTP Bank JSC (Ukraine)	100%	311,390	100%	311,390
OTP Mortgage Bank Ltd.	100%	144,294	100%	144,294
OTP Bank Romania S.A. (Romania)	100%	94,085	100%	94,085
OTP banka Srbija a.d. (Serbia)	97.92%	91,159	97.92%	91,159
DSK Bank EAD (Bulgaria)	100%	86,832	100%	86,832
JSC "OTP Bank" (Russia)	97.87%	74,321	97.87%	74,321
OTP banka Hrvatska d.d. (Croatia)	100%	72,940	100%	72,940
OTP Factoring Ukraine LLC (Ukraine)	100%	70,589	–	–
Crnogorska komercijalna banka a.d. (Montenegro)	100%	58,484	100%	58,484
LLC Alliance Reserve (Russia)	100%	50,074	100%	50,074
OTP Factoring Ltd.	100%	34,011	100%	53,032
OTP Holding Malta Ltd. (Malta)	100%	32,359	100%	32,359
Balansz Real Estate Institute Fund	100%	29,151	100%	29,150
Merkantil Bank Ltd.	100%	23,241	100%	23,241
Bank Center No. 1. Ltd.	100%	21,063	100%	16,063
Inga Kettő Ltd.	100%	17,892	100%	17,892
OTP Banka Slovensko a.s. (Slovakia)	99.26%	17,125	99.26%	17,125
OTP Life Annuity Ltd.	100%	15,300	100%	15,300
Air-Invest Ltd.	100%	10,498	100%	9,698
OTP Real Estate Ltd.	100%	10,023	100%	10,023
Monicomp Ltd.	100%	9,234	100%	9,234
OTP Real Estate Leasing Ltd.	100%	7,206	100%	7,368
R.E. Four d.o.o. (Serbia)	100%	4,357	85.13%	4,357
OTP Venture Capital Fund	100%	3,000	100%	3,000
OTP Funds Servicing and Consulting Ltd.	100%	2,469	100%	2,469
PortfoLion Regional Private Equity Fund*	50%	2,426	50%	2,025
OTP Holding Ltd. (Cyprus)	100%	2,000	100%	2,000
OTP Hungaro-Projekt Ltd.	100%	1,954	100%	141
OTP Building Society Ltd.	100%	1,950	100%	1,950
OTP Fund Management Ltd.	100%	1,653	100%	1,653
OTP Real Estate Investment Fund Management Ltd.	100%	1,352	100%	1,352
CIL Babér Ltd.	100%	1,225	100%	1,225
OTP Financing Netherlands B.V. (the Netherlands)	100%	481	100%	481
OTP Card Factory Ltd.	100%	450	100%	450
OTP Financing Cyprus Company Limited (Cyprus)	100%	301	100%	301
Portfolion Ltd.	100%	150	100%	150
OTP Financing Malta Company Ltd. (Malta)	100%	31	100%	31
Other	–	203	–	152
Total		**1,305,273**		**1,245,801**

* OTP Bank has controlling interest in the entity.

An analysis of the change in the provision for impairment is as follows:

	2016	2015
Balance as at 1 January	**591,781**	**544,311**
Provision for the year	48,136	47,470
Balance as at 31 December	**639,917**	**591,781**

The Bank decided that the recoverable amount is determined based on fair value less cost of disposal. The Bank prepared impairment tests of the subsidiaries based on two different net present value calculation methods that show the same result; however they represent different economical logics. On one hand is the discount cash-flow method (DCF) that calculates the value of the subsidiaries by discounting their expected cash-flow; on the other hand the economic value added (EVA) method estimates the value of the subsidiaries from the initial invested capital and the present value of the economic profit that the companies are expected to generate in the future. Applying the EVA method was more practically than DCF method because it gives a more realistic picture about how the explicit period and the residual value can contribute to the value of the company.

The Bank, in its strategic plan, has taken into consideration the effects of the present global economic situation, the cautious recovery of economic situation and outlook, the associated risks and their possible effect on the financial sector as well as the current and expected availability of wholesale funding.

An analysis of the provision for impairment by significant subsidiaries is as follows:

	2016	2015
OTP Bank JSC (Ukraine)	270,105	270,104
OTP Mortgage Bank Ltd.	117,294	117,294
OTP Factoring Ukraine LLC (Ukraine)	68,172	-
OTP banka Srbija a.d. (Serbia)	63,233	63,233
OTP Factoring Ltd.	32,600	51,621
Crnogorska komercijalna banka a.d. (Montenegro)	26,714	26,714
Merkantil Bank Ltd.	21,641	21,641
OTP banka Hrvatska d.d. (Croatia)	9,232	9,232
OTP Real Estate Leasing Ltd.	7,206	7,368
Total	**616,197**	**567,207**

Dividend income from significant subsidiaries and shares held-for-trading is as follows:

	2016	2015
DSK Bank EAD (Bulgaria)	51,483	43,822
OTP Mortgage Bank Ltd.	30,960	-
OTP Holding Ltd. (Cyprus)	3,604	3,700
OTP Fund Management Ltd.	475	5,343
OTP Building Society Ltd.	140	900
Other	807	2,319
Subtotal	**87,469**	**56,084**
Dividend from shares held-for-trading	2,998	2,513
Total	**90,467**	**58,597**

Significant associates and joint ventures

The main figures of the Bank's indirectly owned associates and joint ventures at cost*:

As at 31 December 2016:

	D-ÉG Thermoset Ltd.	Szallas.hu Ltd.	Company for Cash Services LLC	Suzuki Pénzügyi Szolgáltató Ltd.	Total
Assets	4,862	1,148	2,302	579	**8,891**
Liabilities	4,004	543	103	–	**4,650**
Shareholders' equity	858	605	2,199	579	**4,241**
Total income	4,399	2,647	1,152	2	**8,200**

As at 31 December 2015:

	D-ÉG Thermoset Ltd.	Szallas.hu Ltd.	Company for Cash Services LLC	Suzuki Pénzügyi Szolgáltató Ltd.	Total
Assets	5,356	722	2,296	584	**8,958**
Liabilities	4,090	296	110	2	**4,498**
Shareholders' equity	1,266	426	2,186	582	**4,460**
Total income	6,736	1,891	1,192	17	**9,836**

Capital transactions in subsidiaries are as follows:

	Date of transaction	Registered capital before transaction	Registered capital after transaction	Amount of transaction
OTP Bank Romania S.A. (Romania)	7/01/2016	RON 958,252,800	RON 1,254,252,720	**RON 295,999,920**
OTP Bank JSC (Ukraine)	25/01/2016	UAH 3,668,186,135	UAH 6,186,023,111	**UAH 2,517,836,976**
Bank Center No. 1. Ltd.	23/05/2016	HUF 9,750,000,000	HUF 9,750,100,000	**HUF 100,000**
OTP Real Estate Leasing Ltd.	16/02/2017	HUF 164,000,000	HUF 214,000,000	**HUF 50,000,000**

On 3 February 2016 OTP Bank announces that AXA Bank Europe SA and OTP Bank signed an agreement on purchasing the business unit of AXA Bank Hungary. The purchase agreement includes the take-over of the retail credits and savings, as well as the corporate portfolio and the employees of AXA Bank, which meant 250 people.
The retail-focused AXA Bank is present in Hungary since 2009. AXA Bank has been offering innovative online customer services, and the bank has strong positions in the local mortgage market. After the completion of the purchase the Bank's mortgage portfolio increased with 18%.
On 2 August 2016 following the decision of the Hungarian Competition Authority, the National Bank of Hungary has granted permission as well for the transfer of the Hungarian business unit – as defined in the business transfer agreement – of AXA Bank to OTP Bank as of 31 October 2016 based on the business transfer agreement concluded on 2 February 2016 among AXA Bank Europe SA, the Hungarian Branch Office of AXA Bank Europe SA and OTP Bank, which transfer was completed as at 1 November 2016.
Nearly, whole loan portfolio taken over consists of mortgage backed loans; HUF 162 billion performing and HUF 15 billion 90+ days past due mortgage backed loans in net value as at 1 November 2016. Book value of deposit portfolio taken over from AXA Bank was HUF 60 billion as at 31 December 2016; from that HUF 51 billion is in retail segment.
The costs related to the taken-over of AXA Hungarian business unit was HUF 640 million in the fourth quarter of 2016 which included mainly personnel costs. Due to the transaction neither goodwill nor badwill was recognized.

* Based on unaudited financial statements.

OTP banka Hrvatska, the Croatian subsidiary of OTP Bank, signed an acquisition agreement on purchasing 100% shareholding of Splitska Banka, member of Société Générale Group.
Societe Generale Splitska is the fifth biggest player on the Croatian banking market and as a universal bank it has been active in the retail and corporate segment as well. As a result of the acquisition the market share of OTP Group will rise to approximately 10%.
OTP Bank has been present in Croatia since 2005 and its operation has been continuously profitable even during the economic crisis started in 2008. The financial closure of the transaction is expected in the summer 2017, whereas the integration process may be completed by summer 2018.

NOTE 10: SECURITIES HELD-TO-MATURITY (in HUF mn)

	2016	2015
Government bonds	837,256	803,802
Mortgage bonds	4,778	4,758
Subtotal	**842,034**	**808,560**
Accrued interest	16,116	16,241
Total	**858,150**	**824,801**

Interest conditions and the remaining maturities of held-to-maturity investments can be analysed as follows:

	2016	2015
Within one year:		
variable interest	-	3,339
fixed interest	84,953	386,238
	84,953	**389,577**
Over one year:		
fixed interest	757,081	418,983
	757,081	**418,983**
Total	**842,034**	**808,560**

The distribution of the held-to-maturity securities by currency:

	2016	2015
Securities held-to-maturity denominated in HUF	100%	100%
Securities held-to-maturity total	**100%**	**100%**
Interest rates on securities held-to-maturity	2.5%–9.48%	2.75%–9.48%
Average interest on securities held-to-maturity denominated in HUF	5.01%	5.9%

NOTE 11: PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS (in HUF mn)

For the year ended 31 December 2016:

	Intangible assets	Property	Office equipment and vehicles	Constructio in progress	Total
Cost					
Balance as at 1 January	**131,539**	**69,019**	**67,925**	**3,017**	**271,500**
Additions	18,263	3,204	6,841	9,087	37,395
Disposals	(36,906)	(2,571)	(4,321)	(9,366)	(53,164)
Balance as at 31 December	**112,896**	**69,652**	**70,445**	**2,738**	**255,731**
Depreciation and Amortization					
Balance as at 1 January	**99,101**	**20,061**	**56,460**	**–**	**175,622**
Charge for the year	13,046	1,815	7,011	–	21,872
Disposals	(27,018)	(927)	(3,946)	–	(31,891)
Balance as at 31 December	**85,129**	**20,949**	**59,525**	**–**	**165,603**
Net book value					
Balance as at 1 January	**32,438**	**48,958**	**11,465**	**3,017**	**95,878**
Balance as at 31 December	**27,767**	**48,703**	**10,920**	**2,738**	**90,128**

For the year ended 31 December 2015:

	Intangible assets	Property	Office equipment and vehicles	Constructio in progress	Total
Cost					
Balance as at 1 January	**154,053**	**70,828**	**69,984**	**2,005**	**296,870**
Additions	21,440	4,554	2,819	5,594	34,407
Disposals	(43,954)	(6,363)	(4,878)	(4,582)	(59,777)
Balance as at 31 December	**131,539**	**69,019**	**67,925**	**3,017**	**271,500**
Depreciation and Amortization					
Balance as at 1 January	**117,962**	**18,932**	**55,771**	**–**	**192,665**
Charge for the year	13,978	1,825	5,517	–	21,320
Disposals	(32,839)	(696)	(4,828)	–	(38,363)
Balance as at 31 December	**99,101**	**20,061**	**56,460**	**–**	**175,622**
Net book value					
Balance as at 1 January	**36,091**	**51,896**	**14,213**	**2,005**	**104,205**
Balance as at 31 December	**32,438**	**48,958**	**11,465**	**3,017**	**95,878**

NOTE 12: INVESTMENT PROPERTIES (in HUF mn)

For the year ended 31 December 2016 and 2015:

	2016	2015
Cost		
Balance as at 1 January	**2,803**	**–**
Additions	8	2,803
Disposals	–	–
Balance as at 31 December	**2,811**	**2,803**
Depreciation and Amortization		
Balance as at 1 January	**509**	**–**
Charge for the year	35	509
Disposals	–	–
Balance as at 31 December	**544**	**509**
Net book value		
Balance as at 1 January	**2,294**	**–**
Balance as at 31 December	**2,267**	**2,294**

The depreciable amount (book value less residual value) of the investment properties must be allocated over their useful lives. Depreciation and amortization are calculated using the straight-line method over the estimated useful lives of the assets based on the 1–2% annual percentages.

Incomes and expenses:

	2016	2015
Rental income	60	60

NOTE 13: OTHER ASSETS* (in HUF mn)

	2016	2015
Deferred tax assets*	27,603	41,905
Prepayments and accrued income	26,609	19,319
Receivables from card operations	16,572	7,865
Credits sold under deferred payment scheme	13,591	2
Receivables from OTP Mortgage Bank Ltd.	10,276	13,734
Fair value of derivative financial instruments designated as fair value hedge	7,886	33,768
Receivables from investment services	5,634	8,769
Due from Hungarian Government from interest subsidies	4,273	1,197
Trade receivables	3,883	3,778
Stock exchange deals	2,731	2,048
Other advances	1,808	2,871
Advances for securities and investments	626	631
Inventories	567	457
Current income tax receivable	400	11,381
Other	12,212	6,792
Subtotal	**134,671**	**154,517**
Provision for impairment on other assets**	(5,804)	(6,550)
Total	**128,867**	**147,967**

Positive fair value of derivative financial instruments designated as fair value hedge:

	2016	2015
Interest rate swaps designated as fair value hedge	6,887	15,393
CCIRS designated as fair value hedge	999	18,375
Total	**7,886**	**33,768**

An analysis of the movement in the provision for impairment on other assets is as follows:

	2016	2015
Balance as at 1 January	**6,550**	**4,439**
Charge for the year	273	2,405
Release of provision	(1,019)	(294)
Balance as at 31 December	**5,804**	**6,550**

* Other assets – except income tax receivable and fair value of derivative financial instruments designated as fair value hedge – are expected to be recovered or settled no more than twelve months after the reporting period. Income tax receivable will be enforced in the tax return for the year 2016. Unrealised gains/losses on derivative financial instruments are recovering in accordance with their maturity.

** See Note 26.

*** The Bank, under a syndication agreement administrated mortgage loans with recourse to OTP Mortgage Bank Ltd.

**** Provision for impairment on other assets mainly consists of provision for trade receivables and inventories.

NOTE 14: AMOUNTS DUE TO BANKS AND HUNGARIAN GOVERNMENT, DEPOSITS FROM THE NATIONAL BANK OF HUNGARY AND OTHER BANKS (in HUF mn)

	2016	2015
Within one year:		
In HUF	167,402	325,384
In foreign currency	115,332	165,024
	282,734	**490,408**
Over one year:		
In HUF	269,348	260,607
In foreign currency	89,873	73,648
	359,221	**334,255**
Subtotal	**641,955**	**824,663**
Accrued interest	4,316	4,459
Total*	**646,271**	**829,122**

Interest rates on amounts due to banks and Hungarian Government, deposits from the NBH and other banks are as follows:

	2016	2015
Within one year:		
In HUF	0%–0.9%	(1%)–3.6%
In foreign currency	0%–0.76%	0%–1.27%
Over one year:		
In HUF	0%–2.72%	0%–3.24%
In foreign currency	(0.1%)–10.85%	0.1%–12.13%
Average interest on amounts due to banks in HUF	2.3%	2.44%
Average interest on amounts due to banks in foreign currency	1.99%	0.59%

NOTE 15: DEPOSITS FROM CUSTOMERS (in HUF mn)

	2016	2015
Within one year:		
In HUF	3,777,547	3,504,480
In foreign currency	936,403	782,143
	4,713,950	**4,286,623**
Over one year:		
In HUF	26,831	34,373
	26,831	**34,373**
Subtotal	**4,740,781**	**4,320,996**
Accrued interest	4,270	2,243
Total	**4,745,051**	**4,323,239**

Interest rates on deposits from customers are as follows:

	2016	2015
Within one year in HUF	0%–9.65%	0.01%–4%
Over one year in HUF	0%–9.65%	0.01%–6.85%
In foreign currency	0%–9.7%	0.01%–10%
Average interest on deposits from customers in HUF	0.31%	0.66%
Average interest on deposits from customers in foreign currency	0.18%	0.39%

* It contains the loans lent among the frame of Funding for Growth Scheme, which are accounted as government grant regulated by IAS 20 Standard. See details in Note 42.

An analysis of deposits from customers by type, not included accrued interest, is as follows:

	2016		2015	
Retail deposits	**2,904,762**	**61%**	**2,544,375**	**59%**
Household deposits	2,372,751	50%	2,074,581	48%
Deposits micro and small enterprises	532,011	11%	469,794	11%
Corporate deposits	**1,836,019**	**39%**	**1,776,621**	**41%**
Deposits to medium and large corporates	1,425,572	30%	1,468,427	34%
Municipality deposits	410,447	9%	308,194	7%
Total	**4,740,781**	**100%**	**4,320,996**	**100%**

NOTE 16: LIABILITIES FROM ISSUED SECURITIES (in HUF mn)

	2016	2015
Within one year:		
In HUF	18,494	11,865
In foreign currency	36,002	60,264
	54,496	**72,129**
Over one year:		
In HUF	49,432	75,185
In foreign currency	198	591
	49,630	**75,776**
Subtotal	**104,126**	**147,905**
Accrued interest	(23)	2,326
Total	**104,103**	**150,231**

Interest rates on liabilities from issued securities are as follows:

	2016	2015
Issued securities denominated in HUF	0.01%–7%	0.01%–7%
Issued securities denominated in foreign currency	0.1%–0.8%	0.5%–3%
Average interest on issued securities denominated in HUF	1.11%	1.32%
Average interest on issued securities denominated in foreign currency	0.96%	1.42%

Issued securities denominated in foreign currency as at 31 December 2016:

	Name	Date of issuance	Maturity	Currency	Nominal value in FX million	Nominal value in HUF million	Interest conditions (in % actual)		Hedged
1	OTP EUR 1 2016/XIII	30/12/2015	13/01/2017	EUR	25.32	7,876	0.5	fixed	
2	OTP EUR 1 2017/I	29/01/2016	12/02/2017	EUR	14.58	4,536	0.4	fixed	
3	OTP EUR 1 2017/VI	27/05/2016	10/06/2017	EUR	11.67	3,629	0.1	fixed	
4	OTP EUR 1 2017/IX	10/08/2016	24/08/2017	EUR	8.67	2,696	0.1	fixed	
5	OTP EUR 1 2017/V	15/04/2016	29/04/2017	EUR	8.59	2,673	0.2	fixed	
6	OTP EUR 1 2017/III	26/02/2016	12/03/2017	EUR	7.47	2,323	0.4	fixed	
7	OTP EUR 1 2017/VIII	01/07/2016	15/07/2017	EUR	6.78	2,110	0.1	fixed	
8	OTP EUR 1 2017/IV	18/03/2016	01/04/2017	EUR	6.47	2,011	0.2	fixed	
9	OTP_VK_USD_1_2017/III	27/05/2016	27/05/2017	USD	6.26	1,837	0.8	floating	
10	OTP EUR 1 2017/X	16/09/2016	30/09/2017	EUR	4.45	1,385	0.1	fixed	
11	OTP EUR 1 2017/II	12/02/2016	26/02/2017	EUR	4.35	1,354	0.4	fixed	
12	OTP_VK_USD_1_2017/I	29/01/2016	29/01/2017	USD	3.88	1,140	0.8	floating	
13	OTP EUR 1 2017/VII	10/06/2016	24/06/2017	EUR	3.62	1,126	0.1	fixed	
14	OTP_VK_USD_1_2017/II	18/03/2016	18/03/2017	USD	1.97	577	0.8	floating	
15	OTP_VK_USD_1_2017/IV	16/09/2016	16/09/2017	USD	1.45	427	0.8	fixed	
16	OTP 2017/Fx	19/06/2012	16/06/2017	EUR	0.78	243	indexed		hedged
17	OTP 2018/Fx	19/12/2013	21/12/2018	EUR	0.62	192	indexed		hedged
18	OTP_VK_USD_2_2017/I	10/04/2015	10/04/2017	USD	0.29	84	1.1	floating	
	Subtotal issued securities in FX					**36,219**			
	Unamortized premium					(2)			
	Fair value hedge adjustment					(17)			
	Total					**36,200**			

Term Note Program in the value of HUF 200 billion for the year of 2015/2016

On 30 June 2015 OTP Bank initiated term note program in the value of HUF 200 billion with the intention of issuing registered dematerialized bonds in public. The NBH approved on 14 August 2015 the prospectus of Term Note Program and the disclosure as at 12 August 2015. The prospectus is valid for 12 months following the disclosure. The Issuer can initiate to introduce the bonds issued under the program to the Budapest, Slovakian, Romanian and Bulgarian Stock Exchange without any obligation.

Term Note Program in the value of HUF 200 billion for the year of 2016/2017

On 5 July 2016 OTP Bank initiated term note program in the value of HUF 200 billion with the intention of issuing registered dematerialized bonds in public. The NBH approved on 3 August 2016 the prospectus of Term Note Program and the disclosure as at 10 August 2016. The prospectus is valid for 12 months following the disclosure. The Issuer can initiate to introduce the bonds issued under the program to the Budapest, Slovakian, Romanian, Croatian and Bulgarian Stock Exchange without any obligation.

Certain structured bonds are hedged by interest rate swaps which may transfer to a transferee a fixed interest rate and enter into an interest rate swap with the transferee to receive a fixed interest rate and pay a variable interest rate and amount of the structure if any based on a notional amount which is equal to the notional amount of the hedged bond. In certain cases amount of the structure is hedged by options which give the owner the right to get amount of the structure which is equal to the structure of the hedged bond. The hedge is highly effective if changes in fair value or cash-flows attributable to the hedged risk during the period for which the hedge is designated are within a range of 80–125 per cent.
The cash-flows of the fixed rate securities issued by the Bank are exposed to the change in the HUF/EUR foreign exchange rate and the risk of change in the quoted interest rates of EUR and HUF. The interest rate risk and foreign exchange risk related to these securities are hedged with EUR and HUF interest rate swap ("IRS") transactions, where the fixed interests were swapped to payments linked to 3 month HUF BUBOR and EURIBOR, resulted a decrease in the interest rate and foreign exchange exposure of issued securities.

Issued securities denominated in HUF as at 31 December 2016:

	Name	Date of issuance		Maturity	Nominal value in HUF million	Interest conditions (in % actual)		Hedged
1	OTP 2017/Ax	01/04/2011		31/03/2017	3,939	indexed		hedged
2	OTP 2019/Dx	22/03/2013		21/03/2019	3,845	indexed		hedged
3	OTP 2017/Bx	17/06/2011		20/06/2017	3,727	indexed		hedged
4	OTP 2020/Ex	18/06/2014		22/06/2020	3,686	indexed		hedged
5	OTP 2018/Bx	22/03/2012		22/03/2018	3,601	indexed		hedged
6	OTP 2020/RF/C	11/11/2010		05/11/2020	3,345	indexed		hedged
7	OTP 2020/Fx	10/10/2014		16/10/2020	3,257	indexed		hedged
8	OTP 2018/Cx	18/07/2012		18/07/2018	3,113	indexed		hedged
9	OTP 2017/Ex	21/12/2011		28/12/2017	3,072	indexed		hedged
10	OTP 2020/RF/A	12/07/2010		20/07/2020	3,070	indexed		hedged
11	OTP 2019/Ex	28/06/2013		24/06/2019	3,063	indexed		hedged
12	OTP 2021/RF/B	20/10/2011		25/10/2021	2,955	indexed		hedged
13	OTP 2021/RF/A	05/07/2011		13/07/2021	2,946	indexed		hedged
14	OTP 2017/Cx	19/09/2011		25/09/2017	2,838	indexed		hedged
15	OTP 2020/Gx	15/12/2014		21/12/2020	2,753	indexed		hedged
16	OTP 2018/Dx	29/10/2012		26/10/2018	2,660	indexed		hedged
17	OTP 2018/Ex	28/12/2012		28/12/2018	2,614	indexed		hedged
18	OTP 2022/RF/A	22/03/2012		23/03/2022	1,773	indexed		hedged
19	OTP 2020/RF/B	12/07/2010		20/07/2020	1,417	indexed		hedged
20	OTP 2022/RF/E	29/10/2012		31/10/2022	618	indexed		hedged
21	OTP 2021/RF/C	21/12/2011		30/12/2021	586	indexed		hedged
22	OTP 2023/RF/A	22/03/2013		24/03/2023	567	indexed		hedged
23	OTP 2022/RF/B	22/03/2012		23/03/2022	565	indexed		hedged
24	OTP 2018/Ax	03/01/2012		09/01/2018	472	indexed		hedged
25	OTP 2021/RF/D	21/12/2011		30/12/2021	392	indexed		hedged
26	OTP 2017/Dx	20/10/2011		19/10/2017	385	indexed		hedged
27	OTP 2023/Ax	22/03/2013		24/03/2023	371	indexed		hedged
28	OTP 2024/Bx	10/10/2014		16/10/2024	365	indexed		hedged
29	OTP 2019/Bx	05/10/2009	05/02/2010	14/10/2019	343	indexed		hedged
30	OTP 2022/RF/F	28/12/2012		28/12/2022	341	indexed		hedged
31	OTP 2021/Dx	21/12/2011		27/12/2021	338	indexed		hedged
32	OTP 2020/Ax	25/03/2010		30/03/2020	316	indexed		hedged
33	OTP 2020/Bx	28/06/2010		09/07/2020	305	indexed		hedged
34	OTP 2022/Dx	28/12/2012		27/12/2022	305	indexed		hedged
35	OTP 2024/Cx	15/12/2014		20/12/2024	299	indexed		hedged
36	OTP 2019/Cx	14/12/2009		20/12/2019	285	indexed		hedged
37	OTP 2021/Bx	17/06/2011		21/06/2021	284	indexed		hedged
38	OTP 2021/Cx	19/09/2011		24/09/2021	277	indexed		hedged
39	OTP 2023/Bx	28/06/2013		26/06/2023	265	indexed		hedged
40	OTP 2024/Ax	18/06/2014		21/06/2024	256	indexed		hedged
41	OTP 2021/Ax	01/04/2011		01/04/2021	256	indexed		hedged
42	OTP 2022/Ax	22/03/2012		23/03/2022	252	indexed		hedged
43	OTP 2022/Cx	29/10/2012		28/10/2022	246	indexed		hedged
44	OTP 2019/Ax	25/06/2009		01/07/2019	231	indexed		hedged
45	OTP 2022/Bx	18/07/2012		18/07/2022	230	indexed		hedged
46	OTP TBSZ6 2017/I	13/01/2012	22/06/2012	15/12/2017	223	6.5	fixed	
47	OTP 2022/RF/D	28/06/2012		28/06/2022	218	indexed		hedged
48	OTP 2020/Dx	16/12/2010		18/12/2020	207	indexed		hedged
49	OTP 2020/Cx	11/11/2010		05/11/2020	195	indexed		hedged
50	OTP 2022/RF/C	28/06/2012		28/06/2022	169	indexed		hedged
51	OTP 2021/RF/E	21/12/2011		30/12/2021	61	indexed		hedged
52	OTP OJK 2017/I	27/01/2012	13/07/2012	27/01/2017	1	7	fixed	
53	Other				226			
	Subtotal issued securities in HUF				**68,124**			
	Unamortized premium				(5,587)			
	Fair value hedge adjustment				5,389			
	Total issued securities in HUF				**67,926**			
	Accrued interest				(23)			
	Total issued securities				**104,103**			

NOTE 17: FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS (in HUF mn)

Negative fair value of financial liabilities at fair value through profit or loss classified as held for trading by deal types:

	2016	2015
CCIRS and mark-to-market CCIRS	36,189	97,719
IRS	33,031	30,453
Foreign currency swaps	13,351	9,265
Other derivative contracts*	14,097	7,155
Total	**96,668**	**144,592**

NOTE 18: OTHER LIABILITIES** (in HUF mn)

	2016	2015
Financial liabilities from OTP–MOL share swap transaction***	98,688	66,787
Liabilities from investment services	72,101	39,399
Accrued expenses	29,448	25,664
Short-term liabilities due to repurchase agreement transactions	21,488	7,452
Fair value of derivative financial instruments designated as fair value hedge	21,434	35,701
Accounts payable	17,622	20,038
Salaries and social security payable	17,426	16,817
Provision on other liabilities, off-balance sheet commitments, contingent liabilities	15,297	51,411
HUF denominated liabilities from purchase of customers with cards	12,837	5,804
Current income tax payable	7,948	6,044
Liabilities related to housing loans	6,471	1,475
Suspended liabilities	3,315	7,589
Liabilities connected to loans for collection	814	875
Giro clearing and other clearing accounts	273	6,143
Expected liabilities ordered by law related to customer loans	961	995
Other	10,759	7,833
Total	**336,882**	**300,027**

* Incl.: FX, equity, commodity and index futures; FX forward; commodity and equity swap; FRA; FX option.

** Other liabilities – except financial liabilities from OTP–MOL share swap transaction, deferred tax liabilities and fair value of derivative financial instruments designated as fair value hedge – are expected to be recovered or settled no more than twelve months after the reporting period. Unrealised gains/losses on OTP-MOL share swap transaction is settled in June of each year until the maturity date. The fair value adjustment of swap transaction is HUF 67 million as at 31 December 2016. Unrealised gains/losses on derivative financial instruments is recovering in accordance with their maturity.

*** On 16 April 2009, OTP Bank Plc. and MOL Hungarian Oil and Gas Plc. entered into a 3 years share swap transaction. MOL obtained 24 million pieces of Bank's ordinary shares (8.57% of the ordinary shares) and OTP obtained approximately 5 million pieces of MOL shares. Both parties were granted by an American style call and put option to initiate the gross physical settlement of shares back to the issuer until 11 July 2012. On 11 July 2012 the parties amended the final maturity of the share swap agreement for 11 July 2017 until which any party can initiate cash or physical settlement of the transaction. There is no compulsory settlement of shares at the maturity of the swap agreement. The agreement contains additional settlement provisions in case of certain movement of relative share prices of the parties subject to net cash or net share settlement. Due to the loss of control over the Treasury shares, the Treasury shares were derecognized and MOL shares were recognized as held for trading securities. The written put option over OTP ordinary shares were accounted as a deduction from equity with the amount of HUF 55.5 billion and a recognition of a corresponding liability. As at 31 December 2016 and 2015 HUF 98,688 and HUF 66,787 million liability was presented in other liabilities. The measurement is based on the fair value of MOL shares to be delivered at the potential exercise of the call and put options adjusted with the expected present value of the net cash or net share settlement due to certain movement of relative share prices.

The provision on other liabilities, off-balance sheet commitments and contingent liabilities are detailed as follows:

	2016	2015
Provision for losses on other off-balance sheet commitments and contingent liabilities	11,401	3,103
Provision for retirement pension and severance pay	1,000	1,000
Provision for litigation	362	1,112
Provision on expected liability in relation to OTP Holding Ltd. (Cyprus)	-	43,080
Provision on contingent liabilities due to regulations related to customer loans	-	1,598
Provision on other liabilities	2,534	1,518
Total	**15,297**	**51,411**

Negative fair value of derivative financial instruments designated as fair value hedge is detailed as follows:

	2016	2015
IRS	20,607	13,723
CCIRS	827	21,978
Total	**21,434**	**35,701**

Movements in the provision for losses on commitments and contingent liabilities can be summarized as follows:

	2016	2015
Balance as at 1 January	**51,411**	**55,596**
Provision for the year	16,460	80,329
Release of provision	(52,574)	(84,514)
Balance as at 31 December	**15,297**	**51,411**

NOTE 19: SUBORDINATED BONDS AND LOANS (in HUF mn)

	2016	2015
Within one year:		
In foreign currency	–	156,481
	–	**156,481**
Over one year:		
In foreign currency	109,719	108,200
	109,719	**108,200**
Subtotal	**109,719**	**264,681**
Accrued interest	639	1,382
Total	**110,358**	**266,063**

Interest rates on subordinated bonds and loans are as follows:

	2016	2015
Subordinated bonds and loans denominated in foreign currency	2.69%	5.3%–5.9%
Average interest on subordinated bonds and loans denominated in foreign currency	6.84%	5.57%

Subordinated loans and bonds are detailed as follows as at 31 December 2016:

Type	Nominal value	Date of issuance	Date of maturity	Issue price	Interest conditions
Subordinated bond	EUR 352.8 million	07/11/2006	Perpetual and callable bond after 10 years	99.375%	Fixed 5.875% annual in the first 10 years (payable annually), three-month EURIBOR + 3%, variable after year 10 (payable quarterly)

NOTE 20: SHARE CAPITAL (in HUF mn)

	2016	2015
Authorized, issued and fully paid:		
Ordinary shares	28,000	28,000

NOTE 21: RETAINED EARNINGS AND RESERVES (in HUF mn)

The reserves of the Bank under Hungarian Accounting Standards ("HAS")*:

	2016	2015
Capital reserve	52	52
General reserve	34,287	14,123
Retained earnings	857,019	856,990
Tied-up reserve	9,506	9,785
Total	**900,864**	**880,950**

The legal reserves (general reserve and tied-up reserve) are not available for distribution. Dividend was calculated on the bases of the separate annual net profit according to HAS. Capital reserve is the amount that the entity receives from the owners without obligation to repay it. According to HAS general reserve can be established of profit after tax and in case of loss after tax general reserve shall be used up to amount of loss or general reserve. Retained earnings are total sum of net profit or loss from previous years. Tied-up reserve contains cost of treasury shares and book value of experimental development reclassified from retained earnings in accordance with regulations of HAS.

These Financial Statements are subject to approval by the Board of Directors in the Annual General Meeting in April 2017. In 2016 the Bank paid dividend of HUF 46,200 million from the profit of the year 2015, which means HUF 165 dividend/share payment. In 2017 dividend of HUF 53,200 million are expected to be proposed by the Management from the profit of the year 2016, which means HUF 190 payable dividends by share to the shareholders.

On 19 October 2006 the Bank sold 14.5 million Treasury shares owned by OTP Group through an issue of Income Certificates Exchangeable for Shares ("ICES"). Within the transaction 10 million shares owned by OTP Bank and 4.5 million OTP shares owned by OTP Fund Management Ltd. were sold during the underwriting period of ICES on the weighted average market price (HUF 7,080) of the Budapest Stock Exchange. The shares have been purchased by Opus Securities S.A. ("OPUS"), which issued an exchangeable bond with a total face value of EUR 514,274,000 backed by those shares. The exchangeable bonds have been sold at a 32% premium over the selling price of the shares. The EUR denominated exchangeable bonds are perpetual and the investors can exercise the conversion right between year 6 and 10. The bonds carry a fixed coupon of 3.95% during the first 10 years thereafter the Issuer has the right to redeem the bonds at face value. Following the year 10, the bonds carry a coupon of 3 month EURIBOR +3%. OTP Bank has discretional right to cancel the payments. The interest payable is non-cumulative.

Due to the conditions described above, ICES was accounted as an equity instrument and therefore any payment was accounted as equity distribution paid to ICES holders.

* The reserves under IFRS are detailed in statement of changes in shareholders' equity.

NOTE 22: TREASURY SHARES (in HUF mn)

	2016	2015
Nominal value (ordinary shares)	126	157
Carrying value at acquisition cost	8,709	9,153

The changes in the carrying value of treasury shares are due to repurchase and sale transactions on market authorised by the General Assembly.

Change in number of shares:

	2016	2015
Number of shares as at 1 January	**1,572,937**	**1,605,311**
Additions	1,750,152	5,284,354
Disposals	(2,059,627)	(5,316,728)
Number of shares as at 31 December	**1,263,462**	**1,572,937**

Change in carrying value:

	2016	2015
Balance as at 1 January	**9,153**	**7,073**
Additions	11,982	26,721
Disposals	(12,426)	(24,641)
Balance as at 31 December	**8,709**	**9,153**

NOTE 23: PROVISION FOR IMPAIRMENT ON LOAN AND PLACEMENT LOSSES (in HUF mn)

	2016	2015
Provision for impairment on loan losses		
Provision for the year	47,249	69,926
Release of provision	(54,752)	(52,185)
Provision on loan losses	21,132	21,804
Total	**13,629**	**39,545**
Provision for impairment on placement losses		
Provision for the year	3	3
Total	**3**	**3**
Provision for impairment on loan and placement losses	**13,632**	**39,548**

NOTE 24: NET PROFIT FROM FEES AND COMMISSIONS (in HUF mn)

Income from fees and commissions:

	2016	2015
Deposit and account maintenance fees and commissions	78,041	76,222
Fees and commissions related to the issued bank cards	31,366	28,885
Fees and commissions related to security trading	26,154	24,919
Fees related to the cash withdrawal	21,465	21,522
Fees and commissions received from OTP Mortgage Bank Ltd.	15,890	19,112
Fees and commissions related to lending	6,639	6,766
Net fee income related to card insurance services and loan agreements	3,254	2,805
Other	6,922	5,799
Total	**189,731**	**186,030**

Expenses from fees and commissions:

	2016	2015
Fees and commissions related to issued bank cards	10,784	9,749
Interchange fee	4,632	3,770
Fees and commissions related to lending	4,247	3,813
Fees and commissions related to security trading	1,175	1,011
Cash withdrawal transaction fees	1,065	1,114
Fees and commissions relating to deposits	904	869
Postal fees	245	241
Insurance fees	128	216
Money market transaction fees and commissions	84	1,047
Other	2,990	2,474
Total	**26,254**	**24,304**
Net profit from fees and commissions	**163,477**	**161,726**

NOTE 25: OTHER OPERATING INCOME AND EXPENSES AND OTHER ADMINISTRATIVE EXPENSES (in HUF mn)

Other operating income	2016	2015
Fine refund by Hungarian Competition Authority*	3,960	–
Gains on transactions related to property activities	208	130
Income from non-financing services	5	13
Refund by the State of cancelled receivables from consumer loans converted into HUF**	–	6,631
Other	4,410	1,939
Total	**8,583**	**8,713**

Net other operating expenses	2016	2015
Provision for impairment on investments in subsidiaries	48,136	47,470
Financial support for sport association and organization of public utility	8,731	13,918
Non-repayable assets contributed	921	3,183
Provision for impairment on other assets	73	2,236
Fine imposed by Competition Authority	67	18
Expenses from promissory obligation to OTP Financing Solutions B.V.	–	26,690
(Income)/expenses from regulations related to customer loans**	(5)	40,234
Release of provision on contingent liabilities due to regulations related to customer loans	(1,598)	(42,529)
(Release of provision)/provision for off-balance sheet commitments and contingent liabilities	(34,516)	38,344
Other	7,042	1,615
Total	**28,851**	**131,179**

Other administrative expenses	2016	2015
Personnel expenses		
Wages	59,192	59,303
Taxes related to personnel expenses	18,969	18,969
Other personnel expenses	10,559	8,497
Subtotal	**88,720**	**86,769**
Depreciation and amortization:	**21,872**	**21,320**

Other administrative expenses	2016	2015
Taxes, other than income tax***	76,241	84,750
Services	23,072	21,658
Administration expenses, including rental fees	22,869	21,553
Professional fees	10,671	7,639
Advertising	6,694	5,491
Subtotal	**139,547**	**141,091**
Total	**250,139**	**249,180**

* See Note 28.

** The amount is concerned for the OTP Group. In 2016 the amount of the refund is deductible from special tax of financial institutions and financial transaction duty.

*** Special tax of financial institutions was paid by OTP Bank in the amount of HUF 11 and 24 billion for the year 2016 and 2015, recognized as an expense thus decreased the corporate tax base. In the year ended 31 December 2016 financial transaction duty was paid by the Bank in the amount of HUF 47 billion.

NOTE 26: INCOME TAX (in HUF mn)

Until 31 December 2016 the Bank was liable for income tax at a rate of 19% of taxable income while from 1 January 2017 the Bank is liable for income tax at a rate of 9% of taxable income. Deferred tax was calculated at a rate of 9% as at 31 December 2016.

A breakdown of the income tax expense is:

	2016	2015
Current tax expense	1,772	2,386
Deferred tax expense/(income)	19,324	(5,677)
Total	**21,096**	**(3,291)**

A reconciliation of the deferred tax liability/asset is as follows:

	2016	2015
Balance as at 1 January	**41,905**	**33,557**
Deferred tax (expense)/income	(19,324)	5,677
Tax effect of fair value adjustment of available-for-sale securities recognized in other comprehensive income and ICES	5,022	2,671
Balance as at 31 December	**27,603**	**41,905**

A breakdown of the defferred tax asset/liability is as follows:

	2016	2015
Unused tax allowance	21,945	17,821
Tax accrual caused by negative taxable income	11,041	26,417
Refundable tax in accordance with Acts on Customer Loans	5,239	6,341
Goodwill	2,535	8,030
Repurchase agreements and security lending	1,964	4,102
Difference in reserves under HAS and IFRS	1,012	-
Amounts unenforceable by tax law	138	414
Fair value correction related to customer loans	28	80
Difference in accounting for finance leases	**1**	**147**
Deferred tax assets	43,903	63,352
Fair value adjustment of held for trading and available-for-sale securities	(6,771)	(12,432)
Provision for impairment on investments	(5,051)	-
Fair value adjustment of derivative financial instruments	(1,500)	(2,793)
Difference in depreciation and amortization	(814)	(1,962)
Effect of using effective interest rate method	(678)	(1,695)
Effect of redemption of issued securities	(625)	(2,009)
Valuation of equity instrument (ICES)	(438)	(556)
OTP-MOL share swap transaction	(423)	–
Deferred tax liabilities	**(16,300)**	**(21,447)**
Net deferred tax asset	**27,603**	**41,905**

A reconciliation of the income tax expense is as follows:

	2016	2015
Profit before income tax	193,474	46,354
Income tax at statutory tax rate (19%)	36,760	8,807

Income tax adjustments due to permanent differences are as follows:

	2016	2015
Permanent differences in carrying value of subsidiaries	12,589	(20,640)
Effect of the tax rate change	5,700	–
Tax refund in accordance with Acts on Customer Loans	1,102	22,755
Share-based payment	671	724
OTP–MOL share swap transaction	411	(615)
Amounts unenforceable by tax law	123	(232)
Treasury share transaction	(991)	(1,729)
Use of tax allowance in the current year	(1,919)	–
Deferred use of tax allowance	(4,124)	(11,028)
Provision on expected liability	(12,014)	8,230
Dividend income	(17,175)	(11,133)
Accounting of equity instrument (ICES)	–	(9)
Other	(37)	1,579
Income tax	**21,096**	**(3,291)**
Effective tax rate	10.9%	(7.1%)

In 2015 effective tax rate was negative because income tax and income tax adjustments are altogether negative.

NOTE 27: FINANCIAL RISK MANAGEMENT (in HUF mn)

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial instruments may result in certain risks to the Bank. The most significant risks the Bank faces include:

27.1 Credit risk

The Bank takes on exposure to credit risk which is the risk that a counter-party will be unable to pay amounts in full when due. The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or banks of borrowers, and to geographical areas and loan types. Such risks are monitored on a periodical basis and subject to an annual or more frequent review. The exposure to any borrower including banks and brokers is further restricted by sublimit covering on- and off-balance sheet exposures and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored daily.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits when appropriate. Exposure to credit risk is partly managed obtaining collateral, corporate and personal guarantees.

27.1.1 Analysis by loan types

Classification into risk classes

Exposures with small amounts (retail and micro and small enterprises sector) are subject to **collective valuation** method, which is a simplified assessment. The exposures subject to collective valuation method are classified into five valuation groups which have been formed based on past due days from which three classes were presented (A: 0–90 days past due – DPD, B: 91–360 DPD, C: over 360 days past due).

The Bank intends – where a great number of items and sufficient long-term historical data is available – to apply models on statistical basis. The impairment is calculated according to the possibility of listing the loan into default categories examined on the base of objective valuation criteria (delay of payment, change of exchange) and the expected recovery from the collecting. If the loss of the exposure can't be modelled reliably, the impairment is determined by expert keys.

When applying the individual evaluation method, the incurred loss of each item is determined based on the consideration of all of the following criteria:

- the credit rating of the customer or the partner: the financial position, stability and income-generating capacity affected by the financial or investment service and issuer of the security, and any changes thereto;
- compliance with the rules of repayment (delay): delays in the repayment of the loan principal and its interests;
- the country risk relating to the customer (both political and transfer risks) and any changes thereto;
- the value of collaterals, their liquidity and accessibility, and any changes therein;
- the transferability and liquidity of the exposures (the market conditions of supply and demand, the available market prices and participation in the shareholders' equity of the issuer in proportion to the investment);
- the future payment obligation recognized as a loss arising from the exposure.

The expected future losses of the individually assessed item are determined by taking into consideration the above listed objective valuation aspects. The expected loss, the volume of the necessary reserve, is defined by taking into account the value of the collaterals compared to the value of the collaterals relating to the exposure. The expected recovery is calculated by applying the effective interest rate method and the discounted cash-flow method. The impairment accounted for the item before should be completed to this level by increasing the amount of the impairment or by releasing the provision accounted before.

An analysis of the gross loan portfolio by loan types and DPD categories is as follows:

As at 31 December 2016:

Loan type	DPD 0–90	DPD 91–360	DPD 360+	Total carrying amount/allowance
Placements with other banks	**913,374**	**–**	**–**	**913,374**
Total placements with other banks	**913,374**	**–**	**–**	**913,374**
Allowance on placements with other banks	(32)	-	-	(32)
Consumer loans	267,603	2,280	2,647	272,530
Mortgage and housing loans	196,602	4,480	9,975	211,057
Micro and small enterprises loans	145,346	1,485	678	147,509
Loans to medium and large corporates	1,271,632	10,103	41,485	1,323,220
Municipal loans	33,651	139	11	33,801
Gross loan portfolio total	**1,914,834**	**18,487**	**54,796**	**1,988,117**
Allowance on loans	(38,680)	(10,500)	(42,155)	(91,335)
Net portfolio total	**2,789,496**	**7,987**	**12,641**	**2,810,124**
Accrued interest				
Placements with other banks				2,312
Loans				6,155
Total accrued interest				**8,467**
Total placements with other banks				**915,654**
Total loans				**1,902,937**
Total				**2,818,591**

As at 31 December 2015:

Loan type	DPD 0–90	DPD 91–360	DPD 360+	Total carrying amount/allowance
Placements with other banks	**646,406**	**–**	**29**	**646,435**
Total placements with other banks	**646,406**	**–**	**29**	**646,435**
Allowance on placements with other banks	–	–	(29)	(29)
Consumer loans	259,558	4,119	2,966	266,643
Mortgage and housing loans	63,882	3,725	10,353	77,960
Micro and small enterprises loans	130,542	1,451	68	132,061
Loans to medium and large corporates	1,222,070	8,833	46,389	1,277,292
Municipal loans	19,891	74	41	20,006
Gross loan portfolio total	**1,695,943**	**18,202**	**59,817**	**1,773,962**
Allowance on loans	(47,041)	(10,090)	(42,532)	(99,663)
Net portfolio total	**2,295,308**	**8,112**	**17,285**	**2,320,705**
Accrued interest				
Placements with other banks				1,318
Loans				4,885
Total accrued interest				**6,203**
Total placements with other banks				**647,724**
Total loans				**1,679,184**
Total				**2,326,908**

The Bank's gross loan portfolio increased by 19.9% in the year ended 31 December 2016. Analysing the contribution of loan types to the loan portfolio, the share of several business lines hardly changed. The ratio of the DPD90– loans compared to the gross loan portfolio increased slightly from 96.78% to 97.47% as at 31 December 2016, while the ratio of DPD90+ loans in gross loan portfolio decreased from 3.22% to 2.53%.

The Bank has a prudent provisioning policy, the coverage of loans by provision for impairment on DPD90+ loans increased from 67.45% to 71.85% in the year ended 31 December 2016.wering of credit quality.

Not impaired loan portfolio

Assets, which are neither past due nor impaired, do not indicate any lowering of credit quality.

An analysis of the credit classification of the gross value of the loans that are not impaired, not past due and past due is as follows:

As at 31 December 2016:

Loan type	Not past due	DPD 0–90	DPD 91–360	DPD 360+	Total
Placements with other banks	913,374	–	–	–	913,374
Consumer loans	215,875	46,400	–	–	262,275
Mortgage and housing loans	152,722	41,918	966	2,361	197,967
Micro and small enterprises loans	126,906	16,923	–	–	143,829
Loans to medium and large	1,161,043	39,224	34	177	1,200,478
Municipal loans	22,566	690	129	–	23,385
Total	**2,592,486**	**145,155**	**1,129**	**2,538**	**2,741,308**

As at 31 December 2015:

Loan type	Not past due	DPD 0–90	DPD 91–360	DPD 360+	Total
Placements with other banks	646,406	–	–	–	646,406
Consumer loans	212,132	47,140	70	5	259,347
Mortgage and housing loans	53,675	10,147	174	987	64,983
Micro and small enterprises loans	128,465	1,694	–	–	130,159
Loans to medium and large	1,111,436	3,324	300	4	1,115,064
Municipal loans	20,057	964	74	–	21,095
Total	**2,172,171**	**63,269**	**618**	**996**	**2,237,054**

The ratio of the gross value of the loans neither past due nor impaired compared to the whole portfolio decreased from 89.74% to 89.35% as at 31 December 2016 compared to 31 December 2015. The loans that are neither past due nor impaired are concentrated in the corporate business line. The ratio of the gross value of the loans past due not impaired compared to the whole portfolio increased from 2.68% to 5.13%. The loans that are past due but not impaired are concentrated in the retail business line. During collective valuation method the Bank recognizes provision for impairment on loans over a 30 day delay. Those loans which are guaranteed by state and are past due 30 days not impaired due to the state guarantee. The level of corporate loans past due but not impaired is possible because of endorsing collaterals considering during the individual evaluation. In the other loan types the low level of loans past due but not impaired is a consequence of the prudent provisioning policy of the Bank. Among the past due loans, the share of consumer loan type changed the most significantly in retail business line as at 31 December 2016 compared to 31 December 2015.

Loans individually assessed for provision

The individually rated exposures contain both the loans and the off-balance sheet commitments. The rating has been performed based on the factors used at determining the provision for impairment for them.

As at 31 December 2016:

Considered factors	Carrying value	Allowance for impairment	Collateral value	Off-balance sheet commitments	Provision for losses on off balance sheet contingent liabilities
Delay of repayment	29,386	24,088	7,409	1	1
Regularity of payment	442	119	498	-	-
Legal proceedings	47,575	45,903	8,460	60	54
Decrease of client classification	14,605	4,123	10,437	4,905	279
Loan characteristics	22,222	4,647	15,207	-	-
Business lines risks	8,193	2,981	3,985	3,644	139
Refinancing of subsidiaries portfolio	-	-	-	-	-
Cross default	35,044	15,791	9,260	185	24
Other	3,516	439	2,389	2,437	808
Corporate total	**160,983**	**98,091**	**57,645**	**11,232**	**1,305**
Delay of repayment	-	-	-	-	-
Regularity of payment	-	-	-	-	-
Legal proceedings	-	-	-	-	-
Decrease of client classification	-	-	-	-	-
Cross default	-	-	-	-	-
Other	–	–	–	–	–
Municipal total	**–**	**–**	**–**	**–**	**–**
Placements with other banks	**–**	**–**	**–**	**–**	**–**
Total	**160,983**	**98,091**	**57,645**	**11,232**	**1,305**

As at 31 December 2015:

Considered factors	Carrying value	Allowance for impairment	Collateral value	Off-balance sheet commitments	Provision for losses on off balance sheet contingent liabilities
Delay of repayment	31,026	24,000	9,132	-	-
Regularity of payment	134	44	105	-	-
Legal proceedings	81,103	77,281	10,421	110	58
Decrease of client classification	14,811	5,045	8,106	2,206	296
Loan characteristics	54,682	9,780	35,618	-	-
Business lines risks	36,081	5,529	6,234	5,588	276
Refinancing of subsidiaries portfolio	-	-	-	-	-
Cross default	31,366	18,729	5,365	95	47
Other	5,595	780	4,544	2,890	385
Corporate total	**254,798**	**141,188**	**79,525**	**10,889**	**1,062**
Delay of repayment	-	-	-	-	-
Regularity of payment	-	-	-	-	-
Legal proceedings	41	41	-	-	-
Decrease of client classification	-	-	-	-	-
Cross default	-	-	-	-	-
Other	–	–	–	–	–
Municipal total	**41**	**41**	**–**	**–**	**–**
Placements with other banks	**–**	**–**	**–**	**–**	**–**
Total	**254,839**	**141,229**	**79,525**	**10,889**	**1,062**

Regarding corporate business line in the individually rated portfolio the ratio of the carrying value of loans classified due to Business lines risks, Legal proceedings and Loan characteristics decreased significantly as at 31 December 2016 compared to 31 December 2015, while the carrying value of loans classified due to Regularity of payment increased by 229.8% as at 31 December 2016.

Transactions with high level of risk

Loans to customers are classified by using this category name if the clients are performing according to the contracts but the risks of the transactions are higher than usual (balloon payment, using loan to finance the monetary expenditures in the phase of investment).

Business lines risks

Transactions are classified by using this category name, if the client works in the branch which had been accused by the financial crisis (vehicle industry, building industry, real estate services, metal processing and financial services).

Loan portfolio by countries

An analysis of carrying amount of the non-qualified and qualified gross loan portfolio in a country breakdown is as follows:

	2016		2015	
Country	Gross loan and placement with other banks portfolio	Allowance	Gross loan and placement with other banks portfolio	Allowance
Hungary	2,251,021	53,993	1,672,842	50,229
Belgium	–	–	23,790	–
Bulgaria	68,855	831	69,848	674
Croatia	43,557	171	32,371	201
Cyprus	31,324	14,938	42,062	18,308
France	308	–	7,909	–
Germany	13,386	2	15,413	1
Luxembourg	27	–	42	–
Montenegro	26,610	6,752	41,843	15,411
Norway	2,214	–	5,438	–
Poland	2,250	5	3,250	–
Romania	194,107	5,030	216,571	5,226
Russia	110,583	2,268	68,778	3,326
Serbia	15,426	42	13,432	–
Seychelles	4,786	4,786	4,818	4,818
Slovakia	17,049	2	22,261	131
Switzerland	1,198	5	8,367	88
Ukraine	48,564	2,499	103,382	1,250
United Kingdom	42,932	–	54,952	–
United States of America	33	32	994	29
Other	27,2611*	11	12,034*	–
Total	**2,901,491**	**91,367**	**2,420,397**	**99,692**

* Austria, Australia, Czech Republic, Denmark, Italy, the Netherlands, Turkey and others.

27.1.2 Collaterals

The collateral value held by the Bank by collateral types is as follows **(total collateral value).** The collaterals cover loans as well as off-balance sheet exposures.

Types of collateral	2016	2015
Mortgages	1,052,684	699,275
Guarantees and warranties	252,220	216,552
Deposit	89,859	57,353
from this: Cash	59,444	38,115
Securities	27,867	16,366
Other	2,548	2,872
Assignment	350	570
Other	962	613
Total	**1,396,075**	**974,363**

The collateral value held by the Bank by collateral types is as follows **(to the extent of the exposures)**. The collaterals cover loans as well as off-balance sheet exposures.

Types of collateral	2016	2015
Mortgage	408,220	279,700
Guarantees and warranties	140,452	125,345
Deposit	29,643	24,486
from this: Cash	13,802	15,401
Securities	13,684	6,604
Other	2,157	2,481
Assignment	251	351
Other	442	312
Total	**579,008**	**430,194**

The coverage level of loan portfolio to the extent of the exposures increased from 17.77% to 19.96% as at 31 December 2016, while the coverage to the total collateral value improved from 40.26% to 48.12%.

27.1.3 Restructured loans

	2016		2015	
	Gross portfolio	Allowance	Gross portfolio	Allowance
Retail loans	5,961	2,972	11,545	4,962
Loans to medium and	20,535	4,301	62,630	23,252
Micro and small enterprises	1,549	20	1,824	24
Total	**28,045**	**7,293**	**75,999**	**28,238**

Restructured portfolio definition

Restructured portfolio for retail business line contains every loan which is relevant restructured and less than 91 days delinquent. Loan is considered as relevant restructured if:

- it was restructured in the last 12 months, or
- it was restructured more than 12 months ago, but the connected preferential period is not expired or expired in the last 12 months.

Hungarian FX mortgage loans in the fixed exchange rate scheme are not included.

In case of loans that have been restructured more than once the last restructuring is considered.

Restructured portfolio for **corporate/micro and small enterprises/municipal business line** contains every loan which is relevant restructured and less than 91 days delinquent. Loan is considered as relevant restructured if:

- independently from the date of the restructuring the following restructuring tool was applied:

* Incl.: project and syndicated loans.

– cancellation of principal outstanding (cancelled or partially cancelled principal receivables);

• it was restructured in the last 12 months or the loan was restructured more than 12 months ago, but the connected preferential period is not expired or expired in the last 12 months, and any of the following restructuring tools were applied:
  – cancellation of interest rate (final or temporary reduction of the interest margin, cancellation of due interest), or
  – restructuring of interest payments (postponement of the interest payment, capitalisation of the interest), or
  – restructuring of principal repayment (partial or full postponement of repayment of a given instalment, rescheduling one or more instalments within the original term or with extension of the term simultaneously).

Other modifications of contract not mentioned above are not considered as restructuring (i.e. modifying the collateral structure, modification of the credit purpose).
In case of loans that have been restructured more than once the last restructuring is considered.

Financial instruments by rating categories*

Held-for-trading securities as at 31 December 2016:

	A1	A2	A3	Ba1	Ba2	Baa1	Baa2	Baa3	Not rated	Total
Shares	31	34	31	17	–	15	16	–	103,393**	103,537
Government bonds	–	–	–	–	–	–	–	10,857	–	10,857
Mortgage bonds	–	–	–	82	–	–	–	–	–	82
Hungarian government discounted Treasury Bills	–	–	–	–	–	–	–	97	–	97
Hungarian government interest bearing Treasury Bills	–	–	–	–	–	–	–	15,639	–	15,639
Securities issued by credit institutions	–			1,690	11,492			–	214	13,396
Other securities	–	–	–	829	–	–	–	–	2,987	3,816
Total	**31**	**34**	**31**	**2,618**	**11,492**	**15**	**16**	**26,593**	**106,594**	**147,424**
Accrued interest										516
Total										**147,940**

Available-for-sale securities as at 31 December 2016:

	A1	A2	Ba1	Baa1	Baa2	Baa3	Not rated	Total
Mortgage bonds	–	–	103,970***	156,739***	–	–	6,229	266,938
Government bonds	–	14,806	–	–	3,398	1,022,337	–	1,040,541
Other securities	1,863	–	–	–	–	1,359	160,727	163,949
Total	**1,863**	**14,806**	**103,970**	**156,739**	**3,398**	**1,023,696**	**166,956**	**1,471,428**
Accrued interest								13,094
Total								**1,484,522**

Held-to-maturity securities as at 31 December 2016:

	Ba1	Baa3	Total
Government bonds	–	837,256	837,256
Mortgage bonds	4,778	–	4,778
Subtotal	**4,778**	**837,256**	**842,034**
Accrued interest			16,116
Total			**858,150**

* Moody's ratings.
** Corporate shares listed on Budapest Stock Exchange.
*** The whole portfolio was issued by OTP Mortgage Bank Ltd.

An analysis of securities (held for trading, available-for-sale and held-to-maturity) in a country breakdown is as follows:

Country	2016	2015
Hungary	2,358,667	2,308,787
Slovakia	42,754	7,171
Poland	28,355	-
Russia	13,182	-
Austria	7,352	7,357
Luxembourg	7,169	6,444
United States of America	1,863	5,679
Germany	1,544	343
Total	**2,460,886**	**2,335,781**

27.2 Market risk

The Bank takes on exposure to market risks. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The Bank applies a Value-at-Risk ("VaR") methodology to estimate the market risk of positions held and the maximum losses expected, based upon a number of assumptions for various changes in market conditions. The Management Board sets limits on the value of risk that may be accepted, which is monitored on a daily basis. (Analysis of liquidity risk, foreign currency risk and interest rate risk is detailed in Note 33, 34 and 35, respectively.)

27.2.1 Market risk sensitivity analysis

The VaR risk measure estimates the potential loss in pre-taxation profit over a given holding period for a specified confidence level. The VaR methodology is a statistically defined, probability-based approach that takes into account market volatilities as well as risk diversification by recognizing offsetting positions and correlations between products and markets. Risks can be measured consistently across all markets and products, and risk measures can be aggregated to arrive at a single risk number. The one-day 99% VaR number used by the Bank reflects the 99% probability that the daily loss will not exceed the reported VaR.
VaR methodologies are applied to calculate daily risk numbers include the historical and variance-covariance approaches. In addition to these two methodologies, Monte Carlo simulations are applied to the various portfolios on a monthly basis to determine potential future exposure.

The VaR of the trading portfolio can be summarized as follows:

Historical VaR (99%, one-day) by risk type	Average in HUF miilion	
	2016	2015
Foreign exchange	113	184
Interest rate	69	143
Equity instruments	2	3
Diversification	(31)	(107)
Total VaR exposure	**153**	**223**

The table shows VaR figures by asset classes. Since processes driving the value of the major asset classes are not independent (for example the depreciation of HUF against the EUR mostly coincide with the increase of the yields of Hungarian Government Bonds), a diversification impact emerges, so the overall VaR is less than the sum of the VaR of each individual asset classes.

While VaR captures the Bank's daily exposure to currency and interest rate risk, sensitivity analysis evaluates the impact of a reasonably possible change in interest or foreign currency rates over a year. The longer time frame of sensitivity analysis complements VaR and helps the Bank to assess its market risk exposures. Details of sensitivity analysis for foreign currency risk are set out in Note 27.2.2 below and, for interest rate risk, in Note 27.2.3 below.

27.2.2 Foreign currency sensitivity analysis

The following table details the Bank's sensitivity to an increase and decrease in the HUF exchange rate against EUR and USD, over a 3 months period. Monte Carlo simulation is used when reporting foreign currency risk internally to key management personnel and represents Management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items as strategic open positions related to foreign activities. The strategic open position related to the foreign operations was short, amounted to EUR 310 million (kept to hedge the currency risk of the expected FX-denominated net earnings of the main foreign subsidiaries). High portion of strategic positions is considered as effective hedge of the net investment in foreign subsidiaries – net investment hedge is applied at Group level –, and so FX risk affects the Group's other comprehensive income and not its income. A positive number below indicates an increase in profit where the HUF strengthens against the EUR. For a weakening of the HUF against the EUR, there would be an equal and opposite impact on the profit, and the balances below would be negative.

Probability	Effects to the P&L in 3 months period in HUF billion	
	2016	2015
1%	(12.3)	(14.6)
5%	(8.4)	(10.0)
25%	(3.5)	(4.4)
50%	(0.3)	(0.5)
25%	2.7	3.1
5%	6.9	7.8
1%	9.8	10.9

Notes:

1) The short-term loss on the strategic open position is compensated by the long-term exchange rate gain on the foreign operations.
2) Monte Carlo simulation is based on the empirical distribution of the historical exchange rate movements between 2002 and 2016.

27.2.3 Interest rate sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for both derivatives and non-derivative instruments at the balance sheet date.
The analysis is prepared assuming the amount of assets and liabilities outstanding at the balance sheet date were outstanding for the whole year. The analysis was prepared by assuming only the adverting interest rate changes.
The main assumptions were as follows:

- Floating-rate assets and liabilities were repriced to the modelled benchmark yields at the repricing dates assuming the unchanged margin compared to the last repricing.
- Fixed-rate assets and liabilities were repriced at the contractual maturity date.
- As for liabilities with discretionary repricing feature by the Bank were assumed to be repriced with two-weeks delay, assuming no change in the margin compared to the last repricing date.
- The assets and liabilities with interest rate lower than 0.3% assumed to be unchanged during the whole period.

The sensitivity of interest income to changes in BUBOR was analysed assuming two interest rate path scenarios:

1. HUF base rate stays unchanged and BUBOR decreases gradually to 0.2% (probable scenario)
2. HUF base rate and BUBOR decreases gradually to 0.00% (alternative scenario)

The net interest income in a one year period beginning with 1 January 2017 would be decreased by HUF 915 million (probable scenario) and HUF 3,442 million (alternative scenario) as a result of these simulations. This effect is counterbalanced by capital gains (HUF 291 million for probable scenario, HUF 648 million for alternative scenario) on the government bond portfolio held for hedging (economic).

Furthermore, the effects of an instant 10 bp parallel shift of the HUF, EUR and USD yield-curves on net interest income over a one-year period and on the market value of the hedge government bond portfolio booked against capital was analysed.

The results can be summarized as follows:

	2016		2015	
	in HUF million			
Description	Effects to the net interest income (one-year period)	Effects to OCI (Price change of AFS government bonds)	Effects to the net interest income (one-year period)	Effects to OCI (Price change of AFS government bonds)
HUF (0.1%) parallel shift	(1,435)	195	(571)	195
EUR (0.1%) parallel shift	(377)	-	(214)	-
USD 0.1% parallel shift	(74)	–	(134)	–
Total	**(1,886)**	**195**	**(919)**	**195**

27.2.4 Equity price sensitivity analysis

The following table shows the effect of the equity price sensitivity. The Bank uses VaR calculation with 1 day holding period and 99% confidence level. The VaR methodology is a statistically defined, probability-based approach that takes into account market volatilities as well as risk diversification by recognizing offsetting positions and correlations between products and markets. The daily loss will not exceed the reported VaR number with 99% of probability.

The stress test assumes the largest price movement of the last year and calculates with it as the adverse direction. This scenario shows the loss of the portfolio when all prices change with the maximum amount of the last year.

Description	2016	2015
VaR (99%, one day, million HUF)	2	(3)
Stress test (million HUF)	(18)	(53)

27.2.5 Capital management

Capital management

The primary objective of the capital management of the Bank is to ensure the prudent operation, the entire compliance with the prescriptions of the regulator for a persistent business operation and maximising the shareholder value, accompanied by an optimal financing structure.
The capital management of the Bank includes the management and evaluation of the shareholders` equity available for hedging risks, other types of funds to be recorded in the equity and all material risks to be covered by the capital.
The basis of the capital management of the Bank in the short run is the continuous monitoring of its capital position, in the long run the strategic and the business planning, which includes the monitoring and forecast of the capital position of the Bank.
The Bank maintains the capital adequacy required by the regulatory bodies and the planned risk taking mainly by means of ensuring and developing its profitability. In case the planned risk level of the Bank exceeded its Core and Supplementary capital, the Bank ensures the prudent operation by occasional measures. A further tool in the capital management of the Bank is the dividend policy, and the transactions performed with the treasury shares.

Capital adequacy

The Capital Requirements Directive package (CRDIV/CRR) transposes the new global standards on banking regulation (commonly known as the Basel III agreement) into the EU legal framework. The new rules are applied from 1 January 2014. They set stronger prudential requirements for institutions, requiring them to keep sufficient capital reserves and liquidity. This new framework makes institutions in the EU more solid and strengthens their capacity to adequately manage the risks linked to their activities, and absorb any losses they may incur in doing business. The capital adequacy of the Bank is supervised based on the financial statements data prepared in accordance with HAS applying the current directives, rulings and indicators from 1 January 2014.
The Bank has entirely complied with the regulatory capital requirements in 2016 as well as in 2015.
The Bank uses the standard method for determining the regulatory capital requirements of the credit risk and market risk while in case of the operational risk the Advanced Measurement Approach (AMA) is applied since 31 December 2012.

The calculation of the Capital Adequacy ratio as at 31 December 2016 and 2015 is as follows:

	Basel III	
	2016	2015
Tier1 capital	1,022,394	831,469
Common equity Tier1 capital (CET1)	1,022,394	831,469
Additional Tier1 capital (AT1)	–	–
Tier 2 capital	119,069	143,721
Regulatory capital	**1,141,463**	**975,190**
Credit risk capital requirement	260,392	232,651
Market risk capital requirement	47,887	40,619
Operational risk capital requirement	21,804	20,550
Total requirement regulatory capital	**330,083**	**293,820**
Surplus capital	**811,380**	**681,370**
CET1 ratio	24.78%	22.64%
Capital adequacy ratio	**27.66%**	**26.55%**

Basel III

Common equity Tier 1 capital (CET1): Issued capital, Capital reserve, useable part of Tied-up reserve, General reserve, Profit reserve, Profit for the year, Treasury shares, Intangible assets, deductions due to investments, adjustments due to temporary disposals.
Tier 2 capital: Subsidiary loan capital, Subordinated loan capital, deductions due to repurchased loan capital and Subordinated loan capital issued by the OTP Bank, adjustments due to temporary disposals.

NOTE 28: OFF-BALANCE SHEET ITEMS AND DERIVATIVE FINANCIAL INSTRUMENTS (in HUF mn)

In the normal course of business, the Bank becomes a party to various financial transactions that are not reflected on the statement of financial position and are referred to as off-balance sheet financial instruments. The following represents notional amounts of these off-balance sheet financial instruments, unless stated otherwise.

Contingent liabilities and commitments	2016	2015
Commitments to extend credit	897,808	948,917
Guarantees arising from banking activities	444,501	419,210
from this: Payment undertaking liabilities (related to issue of mortgage bonds) of OTP Mortgage Bank	128,812	123,938
Legal disputes (disputed value)	5,095	35,382
Confirmed letters of credit	139	171
Contingent liabilities ordered by law related to customer loans	-	1,598
Other	118,306	92,558
Total	**1,465,849**	**1,497,836**

Legal disputes

At the balance sheet date the Bank was involved in various claims and legal proceedings of a nature considered normal to its business. The level of these claims and legal proceedings corresponds to the level of claims and legal proceedings in previous years.

On 14 December 2016 OTP Bank announces that in the so-called „retail risk breakfast" case the Hungarian Competition Authority's decision – delivered on 19 November 2013 – imposing a fine of HUF 3.9 billion on the OTP Bank, as well as the upholding first and second instance judgments were repealed by the judgment sentenced by the Curia after the judicial review trial on 12 December, 2016. Curia has accepted the Competition Authority's position related to the definability of the alleged infringements. In February 2017 the fine was refunded for the Bank.
The Bank believes that the various asserted claims and litigations in which it is involved will not materially affect its financial position, future operating results or cash-flows, although no assurance can be given with respect to the ultimate outcome of any such claim or litigation. Provision due to legal disputes was HUF 362 million and HUF 1,112 million as at 31 December 2016 and 2015, respectively (see Note 18).

Commitments to extend credit, guarantees and letter of credit

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct borrowing.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards.

Guarantees, irrevocable letters of credit and undrawn loan commitments are subject to similar credit risk monitoring and credit policies as utilised in the extension of loans. The Management of the Bank believes the market risk associated with guarantees, irrevocable letters of credit and undrawn loan commitments are minimal.

Guarantees, payment undertakings arising from banking activities

Payment undertaking is a promise by the Bank to assume responsibility for the debt obligation of a borrower if that borrower defaults until a determined amount and until a determined date, in case of fulfilling conditions, without checking the undermined transactions. The guarantee's liability is joint and primary with the principal, in case of payment undertaking, while the Bank assumes the obligation derived from guarantee independently by the conditions established by the Bank. A guarantee is most typically required when the ability of the primary obligor or principal to perform its obligations under a contract is in question, or when there is some public or private interest which requires protection from the consequences of the principal's default or delinquency. A contract of guarantee is subject to the statute of frauds (or its equivalent local laws) and is only enforceable if recorded in writing and signed by the surety and the principal.
If the surety is required to pay or perform due to the principal's failure to do so, the law will usually give the surety a right of subrogation, allowing the surety to use the surety's contractual rights to recover the cost of making payment or performing on the principal's behalf, even in the absence of an express agreement to that effect between the surety and the principal.

Contingent liabilities related to OTP Mortgage Bank Ltd.

Under a syndication agreement with its wholly owned subsidiary, OTP Mortgage Bank Ltd., the Bank had guaranteed, in return for an annual fee, to purchase all mortgage loans held by OTP Mortgage Bank Ltd. that become non-performing. The repurchase guarantee contract of non-performing loans between OTP Mortgage Bank Ltd. and OTP Bank Plc. was modified in 2010. According to the new arrangement the repurchase guarantee was cancelled and OTP Bank Plc. gives bail to the loans originated or purchased by the Bank.

Derivatives

The Bank maintains strict control limits on net open derivative positions, i.e. the difference between purchase and sale contracts, by both amount and term. At any time the amount subject to credit risk is limited to the current fair value of instruments that are favourable to the Bank (i.e. assets), which in relation to derivatives is only a small fraction of the contract or notional values used to express the volume of instruments outstanding. This credit risk exposure is managed as part of the overall lending limits with customers, together with potential exposures from market movements. Collateral or other security is not usually obtained for credit risk exposures on these instruments, except for trading with clients, where the Bank in most of the cases requires margin deposits.

NOTE 29: SHARE-BASED PAYMENT AND EMPLOYEE BENEFIT (in HUF mn)

The Bank Group Policy on Payments was accepted in resolution of Annual General Meeting regarding CRD IV. Directives and Act on Credit Institutions and Financial Enterprises.

Key management personnel affected by the Bank Group Policy receive compensation based on performance assessment generally in the form of cash bonus and equity shares in a ratio of 50–50%. Assignment is based on OTP shares, furthermore performance based payments are deferred in accordance with the rules of Credit Institutions Act.
OTP Bank ensures the share-based payment part for the management personnel of OTP Group members.
During implementation of the Remuneration Policy of the Group appeared that in case of certain foreign subsidiaries it is not possible to ensure the originally determined share-based payment because of legal reasons – incompatible with concerning EU-directives –, therefore a decision was made to cancel the share-based payment in referred countries. Pieces of shares per capita, used for settlement of share-based quota as part of performance based payments, must be determined as quota of the total amount of share-based payments and price per share assessed by Supervisory Board[2].

The price per share for determining pieces of shares is assessed by Supervisory Board based on the average of the three previous trade day's middle rate of OTP Bank's equity shares fixed on the Budapest Stock Exchange before the date of the decision made within ten days previous to performance based payment.

At the same time, factual conditions of discounted share-based payment are determined so, that discounted share-based payment shall contain maximum HUF 2,000 discount at the assessment date, and earnings for the shares at the payment date can be maximum HUF 4,000.
Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees or for the termination of employment. IAS 19 Employee Benefits shall be applied in accounting for all employee benefits, except those to which IFRS 2 Share-based Payment applies. In case of the jubilee benefits both standards contain regulations.

Short-term employee benefits are employee benefits (other than termination benefits) that are expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related service. Post-employment benefits are employee benefits (other than termination and short-term employee benefits) that are payable after the completion of employment. Post-employment benefit plans are formal or informal arrangements under which an entity provides post-employment benefits for one or more employees. Post-employment benefit plans are classified as either defined contribution plans or defined benefit plans, depending on the economic substance of the plan as derived from its principal terms and conditions.

Termination benefits are employee benefits provided in exchange for the termination of an employee's employment as a result of either: an entity's decision to terminate an employee's employment before the normal retirement date or an employee's decision to accept an offer of benefits in exchange for the termination of employment. Other long-term employee benefits are all employee benefits other than short-term employee benefits, postemployment benefits and termination benefits.

[2] Until the end of 2014 Board of Directors.

The parameters for the share-based payment relating to the year 2010–2014 were determined by Board of Directors and relating to years from 2015 by Supervisory Board for periods of each year as follows:

Year	Exercis price	Maximum earnings per share	Exercis price	Maximum earnings per share	Exercis price	Maximum earnings per share	Exercis price	Maximum earnings per share	Exercis price	Maximum earnings per share	Exercis price	Maximum earnings per share	Price of remuneration exchanged to share
	Share purchasing at a discounted price (HUF per share)												
	for the year 2010		for the year 2011		for the year 2012		for the year 2013		for the year 2014		for the year 2015		
2011	3,946	2,500	–	–	–	–	–	–	–	–	–	–	–
2012	3,946	3,000	1,370	3,000	–	–	–	–	–	–	–	–	–
2013	4,446	3,500	1,870	3,000	2,886	3,000	–	–	–	–	–	–	–
2014	4,946	3,500	1,870	4,000	2,886	3,000	2,522	2,500	–	–	–	–	–
2015	–	–	1,870	4,000	2,886	3,000	2,522	3,000	3,930	2,500	–	–	–
2016	–	–	–	–	2,886	3,500	2,522	3,500	3,930	3,000	4,892	2,500	6,892
2017	–	–	–	–	–	–	2,522	3,500	3,930	3,000	4,892	3,000	6,892
2018	–	–	–	–	–	–	–	–	3,930	3,000	4,892	3,000	6,892
2019	–	–	–	–	–	–	–	–	–	–	4,892	3,000	6,892

Based on parameters accepted by Board of Directors, relating to the year 2010 effective pieces are follows as at 31 December 2016:

	Effectiv pieces	Approved pieces of shares	Exercised until 31 December 2016	Weighted average share price at the date of exercise (in HUF)	Expired pieces
Share-purchasing period started in 2011	–	340,950	11,622	5,731	329,328
Share-purchasing period started in 2012	–	735,722	714,791	4,593	20,931
Share-purchasing period started in 2013	–	419,479	31,789	4,808	387,690
Share-purchasing period started in 2014	–	497,451	495,720	5,838	1,731

Based on parameters accepted by Board of Directors, relating to the year 2011 effective pieces are follows as at 31 December 2016:

	Effectiv pieces	Approved pieces of shares	Exercised until 31 December 2016	Weighted average share price at the date of exercise (in HUF)	Expired pieces
Share-purchasing period started in 2012	–	471,240	464,753	3,758	6,487
Share-purchasing period started in 2013	–	1,267,173	1,256,529	4,886	10,644
Share-purchasing period started in 2014	–	609,137	609,137	4,799	–
Share-purchasing period started in 2015	–	608,118	608,118	5,621	–

Based on parameters accepted by Board of Directors, relating to the year 2012 effective pieces are follows as at 31 December 2016:

	Effectiv pieces	Approved pieces of shares	Exercised until 31 December 2016	Weighted average share price at the date of exercise (in HUF)	Expired pieces
Share-purchasing period started in 2013	–	450,861	445,671	4,413	5,190
Share-purchasing period started in 2014	–	1,156,631	1,151,890	4,982	4,741
Share-purchasing period started in 2015	–	555,845	555,845	5,658	–
Share-purchasing period started in 2016	1,221	581,377	580,156	6,568	–

Based on parameters accepted by Board of Directors, relating to the year 2013 effective pieces are follows as at 31 December 2016:

	Effectiv pieces	Approved pieces of shares	Exercised until 31 December 2016	Weighted average share price at the date of exercise (in HUF)	Expired pieces
Share-purchasing period started in 2014	–	406,044	404,263	4,369	1,781
Share-purchasing period started in 2015	–	804,469	804,469	4,918	–
Share-purchasing period started in 2016	37,808	393,750	355,942	6,588	–
Share-purchasing period starting in 2017	549,909	–	–	–	–

Based on parameters accepted by Board of Directors, relating to the year 2014 effective pieces are follows as at 31 December 2016:

	Effectiv pieces	Approved pieces of shares	Exercised until 31 December 2016	Weighted average share price at the date of exercise (in HUF)	Expired pieces
Share-purchasing period started in 2015	-	176,459	176,459	5,828	-
Share-purchasing period started in 2016	13,886	360,425	346,539	6,956	-
Share-purchasing period starting in 2017	214,392	-	-	-	-
Share-purchasing period starting in 2018	237,013	-	-	-	-

Based on parameters accepted by Supervisory Board, relating to the year 2015 effective pieces are follows as at 31 December 2016:

	Effectiv pieces	Approved pieces of shares	Exercised until 31 December 2016	Weighted average share price at the date of exercise (in HUF)	Expired pieces
Share-purchasing period started in 2016	-	152,247	152,247	7,373	-
Remuneration exchanged to share provided in 2016	-	10,947	10,947	6,509	-
Share-purchasing period starting in 2017	305,613	-	-	-	-
Remuneration exchanged to share applying in 2017	21,490	-	-	-	-
Share-purchasing period starting in 2018	166,321	-	-	-	-
Remuneration exchanged to share applying in 2018	9,543	-	-	-	-
Share-purchasing period starting in 2019	204,585	-	-	-	-
Remuneration exchanged to share applying in 2019	10,671	-	-	-	-

Effective pieces relating to the periods starting in 2016–2019 settled during valuation of performance of year 2013–2015, can be modified based on risk assessment and personal changes.

In connection with shares given as a part of payments detailed in the Direction Chief Executive about Remuneration of Work in OTP Bank and the share-based compensation for Board of Directors detailed in 8/2013 resolution of Annual General Meeting and connecting compensation based on performance assessment accounted as equity-settled share based transactions, HUF 3,530 million was recognized as expense as at 31 December 2016.

NOTE 30: RELATED PARTY TRANSACTIONS (in HUF mn)

The Bank provides loans to related parties, and collects deposits.

Transactions with related parties (subsidiaries), other than increases in share capital or dividend received, are summarized below:

a) Loans provided to related parties

	2016	2015
OTP Mortgage Bank Ltd.	521,265	262,444
OTP Financing Malta Company Ltd. (Malta)	334,658	344,003
Merkantil Bank Ltd.	197,111	170,919
OTP Factoring Ltd.	109,288	134,220
OTP Real Estate Leasing Ltd.	22,826	23,967
JSC "OTP Bank" (Russia)	22,180	11,085
OTP Holding Malta Ltd. (Malta)	15,778	5,010
Merkantil Lease Ltd.	10,630	18,763
LLC OTP Leasing (Ukraine)	5,496	5,358
D-ÉG Thermoset Ltd.*	2,172	2,531
OTP banka Srbija a.d. (Serbia)	1,957	2,731
Merkantil Real Estate Leasing Ltd.	1,858	2,285
OTP Bank Romania S.A. (Romania)	–	21,125
OTP Financing Netherlands B.V. (the Netherlands)	–	7,567
Merkantil Car Ltd.	–	150
Other	8,209	6,481
Total	**1,253,428**	**1,018,639**

b) Deposits from related parties

	2016	2015
DSK Bank EAD (Bulgaria)	171,541	250,655
JSC "OTP Bank" (Russia)	71,683	25,852
OTP Funds Servicing and Consulting Ltd.	34,902	32,091
OTP Building Society Ltd.	20,822	28,122
OTP Factoring Ltd.	12,960	1,843
Merkantil Bank Ltd.	7,260	7,233
Inga Kettő Ltd.	6,850	15,368
OTP Holding Ltd./OTP Financing Cyprus Co. Ltd. (Cyprus)	6,829	1,509
Balansz Real Estate Institute Fund	6,339	8,858
Bank Center Ltd.	6,252	6,428
OTP Financing Malta Company Ltd. (Malta)	3,165	1,253
OTP Life Annuity Ltd.	3,123	3,090
OTP Mortgage Bank Ltd.	2,597	70,597
OTP Real Estate Leasing Ltd.	2,516	1,725
OTP Financing Netherlands B. V. (the Netherlands)	1,408	1,078
Bajor-Polár Center Ltd.	1,257	–
OTP E-Biz Ltd.	1,207	–
Monicomp Ltd.	475	804
OTP banka Hrvatska d.d. (Croatia)	209	17,240
Crnogorska komercijalna banka a.d (Montenegro)	204	15,680
OTP Banka Slovensko a.s. (Slovakia)	190	39,873
OTP banka Srbija a.d. (Serbia)	104	1,079
OTP Bank Romania S.A. (Romania)	27	31,507
Other	7,255	4,083
Total	**369,175**	**565,968**

* Associate company.

c) Interests received by the Bank*

	2016	2015
OTP Financing Malta Company Ltd. (Malta)	5,643	4,281
OTP Mortgage Bank Ltd.	5,195	5,096
Merkantil Bank Ltd.	4,069	2,884
OTP Factoring Ltd.	1,717	2,346
OTP Real Estate Leasing Ltd.	397	524
LLC OTP Leasing (Ukraine)	319	1,101
Merkantil Lease Ltd.	228	614
D-ÉG Thermoset Ltd.**	80	122
OTP Financing Netherlands B.V. (the Netherlands)	45	347
OTP Financing Solutions B.V. (the Netherlands)	-	4,033
OTP Holding Ltd./OTP Financing Cyprus Co. Ltd. (Cyprus)	-	443
JSC "OTP Bank" (Russia)	-	362
Inga Kettő Ltd.	-	323
Bank Center Ltd.	-	189
OTP Leasing d.d. (Croatia)	-	86
DSK Leasing AD (Bulgaria)	-	53
OTP Factoring Slovensko a.s. (Slovakia)	-	27
Other	213	609
Total	**17,906**	**23,440**

d) Interests paid by the Bank*

	2016	2015
DSK Bank EAD (Bulgaria)	5,432	5,711
JSC "OTP Bank" (Russia)	2,755	456
OTP Mortgage Bank Ltd.	767	2,419
Merkantil Lease Ltd.	461	984
OTP Banka Slovensko a.s. (Slovakia)	402	1,045
OTP Funds Servicing and Consulting Ltd.	397	542
OTP Bank Romania S.A. (Romania)	352	480
OTP Building Society Ltd.	220	560
OTP banka Hrvatska d.d. (Croatia)	200	264
Balansz Real Estate Institute Fund	94	-
Bank Center Ltd.	62	38
Crnogorska komercijalna banka a.d. (Montenegro)	59	133
OTP Life Annuity Ltd.	31	53
Merkantil Bank Ltd.	31	22
OTP Factoring Ltd.	6	58
OTP banka Srbija a.d. (Serbia)	-	11
Other	85	32
Total	**11,354**	**12,808**

e) Commissions received by the Bank

	2016	2015
From OTP Fund Management Ltd. in relation to trading activity	8,446	9,931
From OTP Real Estate Investment Fund Management Ltd. in relation to trading activity	1,473	948
From OTP Building Society Ltd. (agency fee in relation to finalised customer contracts)	1,258	1,200
From Merkantil Bank Ltd. in relation to account management and activity as agent	692	757
From LLC MFO "OTP Finance" (Russia) (bank guarantee fee)	574	216
From OTP Funds Servicing and Consulting Ltd. in relation to banking	505	421
From OTP Fund Management Ltd. in relation to custody activity	175	171
From OTP Bank JSC (Ukraine) in relation to lending activity	-	1,202
Other	11	4
Total	**13,134**	**14,850**

* Derivatives and interest on securities are not included.
** Associate company.

f) Commissions paid by the Bank

	2016	2015
OTP Factoring Ltd. related to workout management	346	310
OTP Pénzügyi Pont Ltd. (agency fee in relation to trading activity)	109	50
Crnogorska komercijalna banka a.d. (Montenegro) related to loan portfolio handling	20	–
OTP Bank Romania S.A. (Romania) related to loan portfolio handling	–	177
Total	**475**	**537**

g) Transactions related to OTP Mortgage Bank Ltd.

	2016	2015
Fees and commissions received from OTP Mortgage Bank Ltd. relating to the loans	15,890	19,112
Loans sold to OTP Mortgage Bank Ltd. with recourse (including interest)	565	1,453
The gross book value of the loans sold	565	1,453

h) Transactions related to OTP Factoring Ltd.

	2016	2015
The gross book value of the loans sold	32,700	17,565
Provision for loan losses on the loans sold	11,799	7,453
Loans sold to OTP Factoring Ltd. without recourse (including interest)	18,710	4,992
Loss on these transaction (recorded in the separate financial statements as loan and placement loss)	2,191	5,120

The underlying mortgage rights were also transferred to OTP Factoring Ltd. The increase from 31 December 2015 to 2016 caused by purchasing unit of AXA Bank Hungary (see Note 9.).

i) Transactions related to OTP Banka Slovensko a.s. (Slovakia)

	2016	2015
Securities issued by OTP Banka Slovensko a.s. (Slovakia) held by OTP Bank (nominal value in HUF million)	35,767	7,202

j) Transactions related to OTP Factoring Montenegro d.o.o. (Montenegro)

	2016	2015
The gross book value of the loans sold	–	589

k) Transactions related to OTP Financing Malta Company Ltd. (Malta)

	2016	2015
The gross book value of the loans sold (including interest)	4,524	315,031
The selling price of the loans sold (including interest and premium/discount)	4,556	314,737

l) Transactions related to OTP Bank Romania S.A. (Romania)

	2016	2015
The gross book value of the loans sold	–	7,199
The selling price of the loans sold	–	5,512

m) Related party transactions with key management

The compensation of key management, such as the members of the Board of Directors, the members of the Supervisory Board and the employees involved in the decision-making process in accordance with the compensation categories defined in IAS 24 Related Party Disclosures, is summarised below:

Compensations	2016	2015
Short-term employee benefits	3,938	1,851
Share-based payment	2,330	2,276
Long-term employee benefits (on the basis of IAS 19)	256	290
Total	**6,524**	**4,417**

	2016	2015
Loans provided to companies owned by the Management (in the normal course of business)	47,883	24,233
Commitments to extend credit and bank guarantees	39,544	33,817
Credit lines of the members of Board of Directors and the Supervisory Board and their close family members (at market conditions)	149	134

The members of the Board of Directors, members of the Supervisory Board, chief executives and their close family members owned credit line "A" in the amount of HUF 142.9 and 139.3 million as at 31 December 2016 and 2015.

An analysis of credit limit related to MasterCard Gold is as follows:

	2016	2015
Members of Board of Directors and their close family members	18	18
Members of Supervisory Board	2	2
Chief executive	-	2

The family member of a member of the Board of Directors owned AMEX Blue credit card loan in the amount of HUF 0.6 million as at 31 December 2016.

Chief executives owned AMEX Gold loading card loan in the amount of HUF 3.5 million as at 31 December 2016.

Member of Board of Directors, members of Supervisory Board and chief executives with their close family members owned AMEX Platinum credit card loan in the amount of HUF 46.8 million as at 31 December 2016. Chief executives owned Lombard loan in the amount of HUF 24.5 million and personal loans in the amount of HUF 10 million.

An analysis of payment to chief executives related to their activity in Board of Directors and Supervisory Board is as follows:

	2016	2015
Members of Board of Directors	753	629
Members of Supervisory Board	87	72
Total	**840**	**701**

In the normal course of business, OTP Bank enters into other transactions with its subsidiaries, the amounts and volumes of which are not significant to these financial statements taken as a whole.

NOTE 31: TRUST ACTIVITIES (in HUF mn)

The Bank acts as a trustee for certain loans granted by companies or employers to their employees, mainly for housing purposes. The ultimate risk for these loans rests with the party advancing the funds.

As these loans and related funds are not considered to be assets or liabilities of the Bank, they have been excluded from the accompanying separate statement of financial position.

	2016	2015
Loans managed by the Bank as a trustee	35,342	37,518

NOTE 32: CONCENTRATION OF ASSETS AND LIABILITIES

In the percentage of the total assets	2016	2015
Receivables from, or securities issued by the Hungarian Government or the NBH	33%	43%
Securities issued by the OTP Mortgage Bank Ltd.	3.66%	8.38%

There were no other significant concentrations of the assets or liabilities of the Bank as at 31 December 2016 or 2015.

OTP Bank continuously provides the Authority with reports on the extent of dependency on large depositors as well as the exposure of the biggest 50 depositors towards OTP Bank.
Further to this obligatory reporting to the Authority, OTP Bank pays particular attention on the exposure of its largest partners and cares for maintaining a closer relationship with these partners in order to secure the stability of the level of deposits.

The organisational unit of OTP Bank in charge of partner-risk management analyses the biggest partners on a constant basis and sets limits on OTP Bank's and the Group's exposure separately partner-by-partner. If necessary, it modifies partner-limits in due course thereby reducing the room for manoeuvring of the Treasury and other business areas.

NOTE 33: MATURITY ANALYSIS OF ASSETS AND LIABILITIES AND LIQUIDITY RISK (in HUF mn)

Liquidity risk is a measure of the extent to which the Bank may be required to raise funds to meet its commitments associated with financial instruments. The Bank maintains its liquidity profiles in accordance with regulations laid down by the NBH.

The essential of the liquidity risk management strategy it to identify all relevant systemic and idiosyncratic sources of liquidity risk and to measure the probability and severity of such events. During liquidity risk management the Bank considers the effect of liquidity risk events caused by reasons arising in the bank business line (deposit withdrawal), the national economy (exchange rate shock, yield curve shock) and the global financial system (capital market shock).

In line with the Bank's risk management policy liquidity risks are measured and managed on multiply hierarchy levels and applying integrated unified VaR based methodology. The basic requirement is that the Bank must keep high quality liquidity reserves by means it can fulfil all liabilities when they fall due without material additional costs.

The liquidity reserves can be divided to two parts. There are separate decentralized liquid asset portfolios at subsidiary level and a centralized flexible liquidity pool at Group's level. The reserves at subsidiary levels are held to cover the relevant shocks of the subsidiaries which may arise in local currencies (deposit withdrawal, local capital market shock, unexpected business expansion), while the centralized liquidity pool is held to cover the OTP Bank's separate shocks (deposit-, yield curve- and exchange rate shocks) and all group member's potential shocks that may arise in foreign currencies (deposit withdrawal, capital market shock).

The recalculation of shocks is made at least quarterly while the recalibration of shock measurement models and review of the risk management methodology is an annual process. The monitoring of liquidity reserves for both centralized and decentralized liquid asset portfolio has been built in the daily reporting process.

Due to the balance sheet adjustment process (deleveraging) experienced in the last few years, the liquidity reserves of the Bank increased significantly while the liquidity risk exposure has decreased considerably. Currently the (over) coverage of risk liquidity risk exposure by high quality liquid assets is in all-time record highs. In 2016 there were no material changes in liquidity risk management process.

The following tables provide an analysis of assets and liabilities about the non-discounted cash-flow into relevant maturity groupings based on the remaining period from the balance sheet date to the contractual maturity date. It is presented under the most prudent consideration of maturity dates where options or repayment schedules allow for early repayment possibilities.

The contractual amounts disclosed in the maturity analyses are the contractual undiscounted cash-flows like gross finance lease obligations (before deducting finance charges); prices specified in forward agreements to purchase financial assets for cash; net amounts for pay-floating/receive-fixed interest rate swaps for which net cash-flows are exchanged; contractual amounts to be exchanged in a derivative financial instrument for which gross cash-flows are exchanged; gross loan commitments.
Such undiscounted cash-flows differ from the amount included in the statement of financial position because the amount in that statement is based on discounted cash-flows. When the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the end of the reporting period. For example, when the amount payable varies with changes in an index, the amount disclosed may be based on the level of the index at the end of the period.

As at 31 December 2016:

	Within 3 months	Within one year and over 3 months	Within 5 years and over one year	Over 5 years	Without maturity	Total
Cash, amounts due from banks and balances with the National Bank of Hungary	532,660	396,186	–	–	–	928,846
Placements with other banks, net of allowance for placement losses	196,129	530,373	115,334	73,818	–	915,654
Financial assets at fair value through profit or loss	8,560	15,186	11,399	5,133	85,194	125,472
Securities available-for-sale	19,716	209,158	944,343	171,035	16,803	1,361,055
Loans, net of allowance for loan losses	515,620	391,673	510,862	499,398	–	1,917,553
Investments in subsidiaries, associates and other investments	–	–	–	–	668,869	668,869
Securities held-to-maturity	25,278	58,940	287,045	439,242	–	810,505
Property and equipment	–	–	–	–	62,361	62,361
Intangible assets	–	–	–	–	27,767	27,767
Other assets*	89,017	4,362	27,604	–	2,267	123,250
TOTAL ASSETS	**1,386,980**	**1,605,878**	**1,896,587**	**1,188,626**	**863,261**	**6,941,332**
Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks	239,504	47,546	292,196	67,025	–	646,271
Deposits from customers	4,042,564	674,112	13,064	15,311	–	4,745,051
Liabilities from issued securities	21,972	28,465	47,066	6,840	–	104,343
Other liabilities*	209,213	7,549	–	–	–	216,762
Subordinated bonds and loans	639	–	–	–	109,719 **	110,358
TOTAL LIABILITIES	**4,513,892**	**757,672**	**352,326**	**89,176**	**109,719**	**5,822,785**
NET POSITION	**(3,126,912)**	**848,206**	**1,544,261**	**1,099,450**	**753,542**	**1,118,547**
Receivables from derivative financial instruments classified as held for trading	2,496,222	578,156	325,686	20,438	–	3,420,502
Liabilities from derivative financial instruments classified as held for trading	(2,488,101)	(566,493)	(315,703)	(23,499)	–	(3,393,796)
Net position of financial instruments classified as held for trading	**8,121**	**11,663**	**9,983**	**(3,061)**	**–**	**26,706**
Receivables from derivative financial instruments designated as fair value hedge	4,942	158,038	73,499	4,442	–	240,921
Liabilities from derivative financial instruments designated as fair value hedge	(4,356)	(156,398)	(98,096)	(4,233)	–	(263,083)
Net position of financial instruments designated as fair value hedge	**586**	**1,640**	**(24,597)**	**209**	**–**	**(22,162)**
Net position of derivative financial instruments total	**8,707**	**13,303**	**(14,614)**	**(2,852)**	**–**	**4,544**
Commitments to extend credit	159,539	531,719	171,903	34,647	–	897,808
Bank guarantees	68,144	56,001	78,586	241,770	–	444,501
Off-balance sheet commitments	**227,683**	**587,720**	**250,489**	**276,417**	**–**	**1,342,309**

* Derivative financial instruments designated as fair value hedge are not included.
** See Note 19.

As at 31 December 2015:

	Within 3 months	Within one year and over 3 months	Within 5 years and over one year	Over 5 years	Without maturity	Total
Cash, amounts due from banks and balances with the National Bank of Hungary	1,326,197	-	-	-	-	1,326,197
Placements with other banks, net of allowance for placement losses	277,698	316,262	53,325	-	-	647,285
Financial assets at fair value through profit	2,662	5,988	8,463	3,118	82,668	102,899
Securities available-for-sale	97,505	169,154	855,761	193,432	23,369	1,339,221
Loans, net of allowance for loan losses	151,068	808,714	384,408	335,073	-	1,679,263
Investments in subsidiaries, associates and other investments	-	-	-	-	657,531	657,531
Securities held-to-maturity	12,763	63,115	378,678	389,642	-	844,198
Property and equipment	-	-	-	-	63,440	63,440
Intangible assets	-	-	-	-	32,439	32,439
Other assets*	46,175	26,000	41,905	–	2,331	116,411
TOTAL ASSETS	**1,914,068**	**1,389,233**	**1,722,540**	**921,265**	**861,778**	**6,808,884**
Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks	449,413	45,377	308,137	38,473	-	841,400
Deposits from customers	4,017,478	269,279	21,987	14,558	-	4,323,302
Liabilities from issued securities	31,140	50,160	33,839	34,339	-	149,478
Other liabilities*	152,750	134,665	-	-	-	287,415
Subordinated bonds and loans	1,382	156,560	–	–	110,566**	268,508
TOTAL LIABILITIES	**4,652,163**	**656,041**	**363,963**	**87,370**	**110,566**	**5,870,103**
NET POSITION	**(2,738,095)**	**733,192**	**1,358,577**	**833,895**	**751,212**	**938,781**
Receivables from derivative financial instruments classified as held for trading	2,083,466	1,035,986	597,635	21,157	-	3,738,244
Liabilities from derivative financial instruments classified as held for trading	(2,081,551)	(1,037,515)	(580,438)	(21,240)	–	(3,720,744)
Net position of financial instruments classified as held for trading	**1,915**	**(1,529)**	**17,197**	**(83)**	**–**	**17,500**
Receivables from derivative financial instruments designated as fair value hedge	40	298,739	248,950	3,074	-	550,803
Liabilities from derivative financial instruments designated as fair value hedge	–	(299,774)	(263,338)	(882)	–	(563,994)
Net position of financial instruments designated as fair value hedge	**40**	**(1,035)**	**(14,388)**	**2,192**	**–**	**(13,191)**
Net position of derivative financial instruments total	**1,955**	**(2,564)**	**2,809**	**2,109**	**–**	**4,309**
Commitments to extend credit	96,504	649,095	203,318	-	-	948,917
Bank guarantees	46,749	40,679	103,825	227,957	–	419,210
Off-balance sheet commitments	**143,253**	**689,774**	**307,143**	**227,957**	**–**	**1,368,127**

* Derivative financial instruments designated as fair value hedge are not included.
** See Note 19.

NOTE 34: NET FOREIGN CURRENCY POSITION AND FOREIGN CURRENCY RISK (in HUF mn)

As at 31 December 2016:

	USD	EUR	CHF	Others	Total
Assets*	141,154	1,348,159	51,227	124,011	1,664,551
Liabilities	(246,556)	(951,569)	(24,184)	(86,090)	(1,308,399)
Off-balance sheet assets and liabilities, net**	32,905	(395,626)	(24,627)	(42,920)	(430,268)
Net position	**(72,497)**	**964**	**2,416**	**(4,999)**	**(74,116)**

As at 31 December 2015:

	USD	EUR	CHF	Others	Total
Assets*	252,582	998,181	90,558	88,994	1,430,315
Liabilities	(371,921)	(949,870)	(25,685)	(36,639)	(1,384,115)
Off-balance sheet assets and liabilities, net**	122,948	(197,317)	(63,111)	(48,910)	(186,390)
Net position	**3,609**	**(149,006)**	**1,762**	**3,445**	**(140,190)**

The table above provides an analysis of the Bank's main foreign currency exposures. The remaining foreign currencies are shown within 'Others'. Whilst the Bank monitors its foreign exchange position for compliance with the regulatory requirements of the NBH and own limit system established in respect of limits on open positions. The measurement of the Bank's open foreign currency position involves monitoring the VaR limit on the foreign exchange exposure of the Bank.

NOTE 35: INTEREST RATE RISK MANAGEMENT (in HUF mn)

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The length of time for which the rate of interest is fixed on a financial instrument, therefore, indicates to what extent it is exposed to interest rate risk.

The majority of the Bank's interest bearing assets and liabilities are structured to match either short-term assets and short-term liabilities, or long-term assets and liabilities with repricing opportunities within one year, or long-term assets and corresponding liabilities where repricing is performed simultaneously.

In addition, the significant spread existing between the different types of interest bearing assets and liabilities enables the Bank to benefit from a high level of flexibility in adjusting for its interest rate matching and interest rate risk exposure.

The following table presents the interest repricing dates of the Bank. Variable yield assets and liabilities have been reported in accordance with their next repricing date. Fixed income assets and liabilities have been reported in accordance with their maturity.

* The assets category contains foreign currency investments in subsidiaries that are measured at cost, and are deducted from the net position calculation.
** Off-balance sheet assets and liabilities, net category contains derivative instruments.

As at 31 December 2016:

	Within 1 month		Over 1 month and within 3 months		Over 3 moths and within 12 months		Over 1 year and within 2 years		Over 2 years		Non-interest-bearing		Total		Total
	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	
ASSETS															
Cash, amounts due from banks and balances with the National Bank of Hungary	**500,454**	**329,040**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**88,244**	**11,108**	**588,698**	**340,148**	**928,846**
fixed interest	500,454	329,040	–	–	–	–	–	–	–	–	–	–	500,454	329,040	829,494
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	88,244	11,108	88,244	11,108	99,352
Placements with other banks, net of allowance for placement losses	**204,491**	**114,880**	**447,406**	**19,158**	**236**	**22,711**	**331**	**–**	**103,732**	**397**	**2,245**	**67**	**758,441**	**157,213**	**915,654**
fixed interest	52,403	63,610	6,315	2,060	236	9,026	331	–	103,732	–	–	–	163,017	74,696	237,713
variable interest	152,088	51,270	441,091	17,098	–	13,685	–	–	–	397	–	–	593,179	82,450	675,629
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	2,245	67	2,245	67	2,312
Securities held for trading	**2,419**	**–**	**6,635**	**–**	**11,762**	**6,218**	**119**	**5,225**	**5,316**	**3,377**	**106,546**	**323**	**132,797**	**15,143**	**147,940**
fixed interest	2,419	–	6,168	–	7,273	6,218	119	5,225	5,316	3,377	–	–	21,295	14,820	36,115
variable interest	–	–	467	–	4,489	–	–	–	–	–	–	–	4,956	–	4,956
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	106,546	323	106,546	323	106,869
Securities available-for-sale	**22,867**	**161,379**	**18,748**	**21,795**	**21,568**	**28,300**	**329,963**	**14,248**	**660,781**	**170,504**	**20,960**	**13,409**	**1,074,887**	**409,635**	**1,484,522**
fixed interest	0	0	2,624	0	21,568	28,300	329,963	14,248	660,781	170,504	–	–	1,014,936	213,052	1,227,988
variable interest	22,867	161,379	16,124	21,795	–	–	–	–	–	–	–	–	38,991	183,174	222,165
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	20,960	13,409	20,960	13,409	34,369
Loans, net of allowance for loan losses	**452,742**	**186,528**	**336,373**	**450,871**	**194,096**	**12,917**	**73,196**	**7,244**	**141,228**	**41,587**	**4,234**	**1,921**	**1,201,869**	**701,068**	**1,902,937**
fixed interest	21,496	1,289	29,664	1,906	45,829	7,997	48,520	7,244	138,295	41,587	–	–	283,804	60,023	343,827
variable interest	431,246	185,239	306,709	448,965	148,267	4,920	24,676	–	2,933	–	–	–	913,831	639,124	1,552,955
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	4,234	1,921	4,234	1,921	6,155
Securities held-to-maturity	**–**	**–**	**25,294**	**–**	**59,659**	**–**	**58,870**	**–**	**698,211**	**–**	**16,116**	**–**	**858,150**	**–**	**858,150**
fixed interest	–	–	25,294	–	59,659	–	58,870	–	698,211	–	–	–	842,034	–	842,034
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	16,116	–	16,116	–	16,116
Derivative financial instruments	**440,563**	**629,907**	**533,092**	**178,191**	**197,126**	**99,253**	**25,585**	**140,406**	**32,444**	**35,595**	**608,980**	**233,885**	**1,837,790**	**1,317,237**	**3,155,027**
fixed interest	425,320	435,139	261,919	111,266	195,635	72,291	25,585	140,406	32,444	35,595	–	–	940,903	794,697	1,735,600
variable interest	15,243	194,768	271,173	66,925	1,491	26,962	–	–	–	–	–	–	287,907	288,655	576,562
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	608,980	233,885	608,980	233,885	842,865

As at 31 December 2016:

	Within 1 month		Over 1 month and within 3 months		Over 3 moths and within 12 months		Over 1 year and within 2 years		Over 2 years		Non-interest-bearing		Total		Total
	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	
LIABILITIES															
Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks	**108,512**	**89,818**	**11,522**	**96,863**	**56,802**	**6,787**	**167,346**	**5,570**	**93,546**	**5,189**	**3,338**	**978**	**441,066**	**205,205**	**646,271**
fixed interest	101,314	918	10,447	745	30,493	4,885	167,299	5,570	93,336	5,189	–	–	402,889	17,307	420,196
variable interest	7,198	88,900	1,075	96,118	26,309	1,902	47	–	210	–	–	–	34,839	186,920	221,759
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	3,338	978	3,338	978	4,316
Deposits from customers	**1,320,702**	**203,198**	**371,084**	**59,357**	**119,369**	**35,865**	**5,227**	**–**	**1,988,233**	**637,746**	**4,033**	**237**	**3,808,648**	**936,403**	**4,745,051**
fixed interest	504,918	195,811	368,812	59,357	119,369	35,865	5,227	–	4,454	–	–	–	1,002,780	291,033	1,293,813
variable interest	815,784	7,387	2,272	–	–	–	–	–	1,983,779	637,746	–	–	2,801,835	645,133	3,446,968
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	4,033	237	4,033	237	4,270
Liabilities from issued securities	**1**	**9,102**	**2,957**	**9,201**	**7,480**	**17,709**	**9,320**	**189**	**48,121**	**–**	**23**	**–**	**67,902**	**36,201**	**104,103**
fixed interest	1	7,963	2,957	8,212	7,480	15,800	9,320	189	48,121	–	–	–	67,879	32,164	100,043
variable interest	–	1,139	–	989	–	1,909	–	–	–	–	–	–	–	4,037	4,037
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	23	–	23	–	23
Derivative financial instruments	**946,119**	**124,775**	**534,213**	**171,532**	**249,185**	**11,700**	**161,519**	**16,746**	**41,332**	**59,631**	**356,936**	**467,979**	**2,289,304**	**852,363**	**3,141,667**
fixed interest	740,009	119,685	313,883	56,132	248,403	2,351	161,519	16,746	41,332	59,631	–	–	1,505,146	254,545	1,759,691
variable interest	206,110	5,090	220,330	115,400	782	9,349	–	–	–	–	–	–	427,222	129,839	557,061
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	356,936	467,979	356,936	467,979	824,915
Subordinated bonds and loans	**–**	**–**	**–**	**109,719**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**639**	**–**	**110,358**	**110,358**
variable interest	–	–	–	109,719	–	–	–	–	–	–	–	–	–	109,719	109,719
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	–	639	–	639	639
NET POSITION	**–751,798**	**994,841**	**447,772**	**223,343**	**51,611**	**97,338**	**144,652**	**144,618**	**–529,520**	**–451,106**	**482,995**	**–209,120**	**–154,288**	**799,914**	**645,626**

As at 31 December 2015:

	Within 1 month		Over 1 month and within 3 months		Over 3 moths and within 12 months		Over 1 year and within 2 years		Over 2 years		Non-interest-bearing		Total		Total
	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	
ASSETS															
Cash, amounts due from banks and balances with the National Bank of Hungary	**1,202,576**	**40,818**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**76,320**	**6,483**	**1,278,896**	**47,301**	**1,326,197**
fixed interest	1,202,576	40,818	–	–	–	–	–	–	–	–	–	–	1,202,576	40,818	1,243,394
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	76,320	6,483	76,320	6,483	82,803
Placements with other banks, net of allowance for placement losses	**125,409**	**103,476**	**317,181**	**66,155**	**220**	**5,351**	**308**	**696**	**25,247**	**3,681**	**–**	**–**	**468,365**	**179,359**	**647,724**
fixed interest	52,836	60,993	120,240	24,595	220	424	308	696	25,247	3,681	–	–	198,851	90,389	289,240
variable interest	72,573	42,483	196,941	41,560	–	4,927	–	–	–	–	–	–	269,514	88,970	358,484
Securities held for trading	**356**	**–**	**2,125**	**23**	**7,914**	**43**	**141**	**1**	**10,345**	**52**	**72,206**	**357**	**93,087**	**476**	**93,563**
fixed interest	356	–	1,857	23	6,001	25	141	1	10,345	52	–	–	18,700	101	18,801
variable interest	–	–	268	–	1,913	18	–	–	–	–	–	–	2,181	18	2,199
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	72,206	357	72,206	357	72,563
Securities available-for-sale	**21,671**	**317,230**	**114,804**	**7,171**	**3,256**	**9,753**	**–**	**29,529**	**847,783**	**53,479**	**43,319**	**14,665**	**1,030,833**	**431,827**	**1,462,660**
fixed interest	–	–	95,851	–	3,256	4,780	–	29,529	847,783	53,479	–	–	946,890	87,788	1,034,678
variable interest	21,671	317,230	18,953	7,171	–	4,973	–	–	–	–	–	–	40,624	329,374	369,998
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	43,319	14,665	43,319	14,665	57,984
Loans, net of allowance for loan losses	**314,234**	**192,553**	**172,493**	**607,190**	**166,257**	**14,872**	**62,829**	**8,694**	**128,139**	**11,923**	**–**	**–**	**843,952**	**835,232**	**1,679,184**
fixed interest	2,390	700	6,530	1,502	32,250	8,643	35,934	8,694	72,613	11,923	–	–	149,717	31,462	181,179
variable interest	311,844	191,853	165,963	605,688	134,007	6,229	26,895	–	55,526	–	–	–	694,235	803,770	1,498,005
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Securities held-to-maturity	**–**	**–**	**16,087**	**–**	**23,576**	**–**	**85,778**	**–**	**683,119**	**–**	**16,241**	**–**	**824,801**	**–**	**824,801**
fixed interest	–	–	12,748	–	23,576	–	85,778	–	683,119	–	–	–	805,221	–	805,221
variable interest	–	–	3,339	–	–	–	–	–	–	–	–	–	3,339	–	3,339
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	16,241	–	16,241	–	16,241
Derivative financial instruments	**673,749**	**668,467**	**1,351,732**	**384,815**	**217,206**	**109,734**	**46,773**	**149,426**	**39,414**	**29,997**	**446,726**	**110,203**	**2,775,600**	**1,452,642**	**4,228,242**
fixed interest	500,878	227,942	428,021	135,754	216,291	66,795	46,773	149,426	39,414	29,997	–	–	1,231,377	609,914	1,841,291
variable interest	172,871	440,525	923,711	249,061	915	42,939	–	–	–	–	–	–	1,097,497	732,525	1,830,022
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	446,726	110,203	446,726	110,203	556,929

As at 31 December 2015:

	Within 1 month		Over 1 month and within 3 months		Over 3 moths and within 12 months		Over 1 year and within 2 years		Over 2 years		Non-interest-bearing		Total		Total
	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	
LIABILITIES															
Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks	**272,075**	**155,355**	**14,020**	**65,193**	**63,473**	**6,772**	**168,853**	**5,779**	**72,029**	**5,573**	**–**	**–**	**590,450**	**238,672**	**829,122**
fixed interest	271,877	103,120	12,930	741	32,373	4,588	168,853	5,779	72,029	5,573	–	–	558,062	119,801	677,863
variable interest	198	52,235	1,090	64,452	31,100	2,184	–	–	–	–	–	–	32,388	118,871	151,259
Deposits from customers	**1,331,844**	**222,143**	**504,203**	**162,932**	**135,491**	**101,120**	**2,224**	**–**	**1,567,333**	**295,949**	**–**	**–**	**3,541,095**	**782,144**	**4,323,239**
fixed interest	725,778	214,876	504,189	162,430	135,491	101,120	2,224	–	8,778	–	–	–	1,376,460	478,426	1,854,886
variable interest	606,066	7,267	14	502	–	–	–	–	1,558,555	295,949	–	–	2,164,635	303,718	2,468,353
Liabilities from issued securities	**6**	**5,097**	**13**	**8,730**	**5,381**	**38,543**	**12,908**	**8,295**	**71,067**	**191**	**–**	**–**	**89,375**	**60,856**	**150,231**
fixed interest	6	4,848	13	6,578	5,381	35,587	12,908	8,295	71,067	191	–	–	89,375	55,499	144,874
variable interest	–	249	–	2,152	–	2,956	–	–	–	–	–	–	–	5,357	5,357
Derivative financial instruments	**1,248,271**	**98,126**	**1,083,679**	**640,110**	**158,671**	**134,008**	**190,632**	**6,931**	**40,977**	**72,001**	**227,762**	**315,022**	**2,949,992**	**1,266,198**	**4,216,190**
fixed interest	635,192	88,963	418,185	143,566	157,950	125,122	190,632	6,931	40,977	72,001	–	–	1,442,936	436,583	1,879,519
variable interest	613,079	9,163	665,494	496,544	721	8,886	–	–	–	–	–	–	1,279,294	514,593	1,793,887
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	227,762	315,022	227,762	315,022	542,784
Subordinated bonds and loans	**–**	**–**	**–**	**–**	**–**	**266,063**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**266,063**	**266,063**
fixed interest	–	–	–	–	–	266,063	–	–	–	–	–	–	–	266,063	266,063
NET POSITION	**(514,201)**	**841,823**	**372,507**	**188,389**	**55,413**	**(406,753)**	**(178,788)**	**167,341**	**(17,359)**	**(274,582)**	**427,050**	**(183,314)**	**144,622**	**332,904**	**477,526**

NOTE 36: EARNINGS PER SHARE

Earnings per share attributable to the Bank's ordinary shares are determined by dividing Net profit for the year attributable to ordinary shareholders, after the deduction of declared preference dividends, by the weighted average number of ordinary shares outstanding during the year. Dilutive potential ordinary shares are deemed to have been converted into ordinary shares.

	2016	2015
Net profit for the year attributable to ordinary shareholders (in HUF mn)	172,378	49,645
Weighted average number of ordinary shares outstanding during the year for calculating basic EPS (number of share)	278,350,340	273,524,198
Basic Earnings per share (in HUF)	**619**	**182**
Separate net profit for the year attributable to ordinary shareholders (in HUF mn)	172,378	49,645
Modified weighted average number of ordinary shares outstanding during the year for calculating diluted EPS (number of share)	278,402,662	273,739,580
Diluted Earnings per share (in HUF)	**619**	**181**

	2016	2015
Weighted average number of ordinary shares	280,000,010	280,000,010
Average number of Treasury shares	(1,649,670)	(6,475,812)
Weighted average number of ordinary shares outstanding during the year for calculating basic EPS	**278,350,340**	**273,524,198**
Dilutive effect of options issued in accordance with the Remuneration Policy/Management Option Program and convertible into ordinary shares*	52,321	215,382
The modified weighted average number of ordinary shares outstanding during the year for calculating diluted EPS	**278,402,661**	**273,739,580**

NOTE 37: NET GAIN OR LOSS REALISED ON FINANCIAL INSTRUMENTS (in HUF mn)

As at 31 December 2016:

	Net interest income and expense	Net non-interest gain and loss	Provision for impairment	Other comprehensive income
Cash, amounts due from banks and balances with the National Bank of Hungary	9,830	-	-	-
Placements with other banks, net of allowance for placement losses	10,461	-	(3)	-
Securities held for trading	1,027	2,210	-	-
Securities available-for-sale	35,766	44,189	-	53,662
Loans, net of allowance for loan losses	112,558	18,282	7,503	-
Securities held-to-maturity	41,327	-	-	-
Derivative financial instruments	6,869	473	-	-
Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks	(16,050)	-	-	-
Deposits from customers	(12,897)	113,486	-	-
Liabilities from issued securities	(1,329)	-	-	-
Subordinated bonds and loans	(13,721)	–	–	–
Other	25	–	–	–
Total	**173,866**	**178,640**	**7,500**	**53,662**

* In 2016 and 2015 dilutive effect is in connection with the Remuneration Policy.

As at 31 December 2015:

	Net interest income and expense	Net non-interest gain and loss	Provision for impairment	Other comprehensive income
Cash, amounts due from banks and balances with the National Bank of Hungary	26,574	–	–	–
Placements with other banks, net of allowance for placement losses	9,712	–	(3)	–
Securities held for trading	281	1,072	–	–
Securities available-for-sale	50,655	20,333	–	46,324
Loans, net of allowance for loan losses	125,229	22,065	(11,890)	–
Securities held-to-maturity	39,973	–	–	–
Derivative financial instruments	8,348	(316)	–	–
Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks	(17,678)	–	–	–
Deposits from customers	(26,455)	111,126	–	–
Liabilities from issued securities	(2,091)	–	–	–
Subordinated bonds and loans	(16,686)	–	–	–
Other	25	–	–	–
Total	**197,887**	**154,280**	**(11,893)**	**46,324**

In relating to derivative financial instruments net gains in the amount of HUF 656 million were recognized as at 31 December 2016. From this HUF 715 million in connection with CCIRS and mark-to-market CCIRS, –HUF 610 million in connection with foreign currency swaps and HUF 551 million in connection with other derivative transactions was realized.

NOTE 38: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn)

In determining the fair value of a financial asset or liability the Bank in the case of instruments that are quoted on an active market uses the market price. In most cases market price is not publicly available so the Bank has to make assumptions or use valuation techniques to determine the fair value of a financial instrument. See Note 38. e) for more information about fair value classes applied for financial assets and liabilities measured at fair value in these financial statements.

To provide a reliable estimate of the fair value of those financial instrument that are originally measured at amortised cost, the Bank used the discounted cash-flow analysis (loans, placements with other banks, amounts due to banks, deposits from customers). The fair value of issued securities and subordinated bonds is based on quoted prices (e.g. Reuters). Cash and amounts due from banks and balances with the National Bank of Hungary represent amounts available immediately thus the fair value equals to the cost.

The assumptions used when calculating the fair value of financial assets and liabilities when using valuation technique are the following:

- the discount rates are the risk free rates related to the denomination currency adjusted by the appropriate risk premium as of the end of the reporting period,
- the contractual cash-flows are considered for the performing loans and for the non-performing loans, the amortised cost less impairment is considered as fair value,
- the future cash-flows for floating interest rate instruments are estimated from the yield curves as of the end of the reporting period,
- the fair value of the deposit which can be due in demand cannot be lower than the amount payable on demand.

Classes of assets and liabilities not measured at fair value in the statement of financial position, income approach was used to convert future cash-flows to a single current amount. Fair value of current assets is equal to carrying amount, fair value of liabilities from issued securities and other bond-type classes of assets and liabilities not measured at fair value measured based on Reuters market rates, fair value of other classes not measured at fair value of the statement of financial position measured at discounted cash-flow method. Fair value of loans, net of allowance for loan losses measured at discount rate adjustment technique, the discount rate is derived from observed rates of return for comparable assets or liabilities that are traded in the market. Fair value measurements – in relation with instruments measured not at fair value – are categorized in level 2 of the fair value hierarchy.

a) Fair value of financial assets and liabilities

	2016		2015	
	Carrying amount	Fair value	Carrying amount	Fair value
Cash, amounts due from banks and balances with the National Bank of Hungary	928,846	928,955	1,326,197	1,327,460
Placements with other banks, net of allowance for placement losses	915,654	926,857	647,724	666,128
Financial assets at fair value through profit or loss	271,516	271,516	252,140	252,140
Held for trading securities	147,940	147,940	93,563	93,563
Derivative financial instruments classified as held for trading	123,576	123,576	158,577	158,577
Securities available-for-sale	1,484,522	1,484,522	1,462,660	1,462,660
Loans, net of allowance for loan losses*	1,902,937	2,214,101	1,679,184	1,974,713
Securities held-to-maturity	858,150	937,640	824,801	883,697
Derivative financial instruments designated as hedging instruments	7,886	7,886	33,768	33,768
FINANCIAL ASSETS TOTAL	**6,369,511**	**6,771,477**	**6,226,474**	**6,600,566**
Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks	646,271	640,636	829,122	829,150
Deposits from customers	4,745,051	4,715,975	4,323,239	4,307,291
Liabilities from issued securities	104,103	124,855	150,231	168,338
Derivative financial instruments designated as hedging instruments	21,434	21,434	35,701	35,701
Financial liabilities at fair value through profit or loss	96,668	96,668	144,592	144,592
Financial liabilities from OTP–MOL transaction	98,688	98,688	66,787	66,787
Subordinated bonds and loans	110,358	102,849	266,063	271,884
FINANCIAL LIABILITIES TOTAL	**5,822,573**	**5,801,105**	**5,815,735**	**5,823,743**

* Fair value of loans increased in the year ended 31 December 2016 and 2015 due to decrease of short-term and long-term interests.

b) Fair value of derivative instruments

	Fair value		Notional value, net	
	2016	2015	2016	2015
Interest rate swaps classified as held for trading				
Positive fair value of interest rate swaps classified as held for trading	38,413	33,869	35,852	40,702
Negative fair value of interest rate swaps classified as held for trading	(33,031)	(30,453)	(33,205)	(37,158)
Foreign exchange swaps classified as held for trading				
Positive fair value of foreign exchange swaps classified as held for trading	23,385	14,352	25,995	14,994
Negative fair value of foreign exchange swaps classified as held for trading	(13,351)	(9,265)	(13,704)	(7,615)
Interest rate swaps designated as fair value hedge				
Positive fair value of interest rate swaps designated in fair value hedge	6,887	15,393	9,428	7,932
Negative fair value of interest rate swaps designated in fair value hedge	(20,607)	(13,723)	(32,211)	(17,211)
CCIRS classified as held for trading				
Positive fair value of CCIRS classified as held for trading	43,206	102,125	40,066	103,253
Negative fair value of CCIRS classified as held for trading	(35,489)	(95,349)	(32,668)	(96,285)
Mark-to-market CCIRS classified as held for trading				
Positive fair value of mark-to-market CCIRS classified as held for trading	332	–	383	–
Negative fair value of mark-to-market CCIRS classified as held for trading	(700)	(2,370)	(665)	(2,143)
CCIRS designated as fair value hedge				
Positive fair value of CCIRS designated in fair value hedge	999	18,375	1,031	18,263
Negative fair value of CCIRS designated in fair value hedge	(827)	(21,978)	(409)	(21,872)
Other derivative contracts classified as held for trading				
Positive fair value of other derivative contracts classified as held for trading	18,240	8,231	13,297	5,342
Negative fair value of other derivative contracts classified as held for trading	(14,097)	(7,155)	(8,646)	(3,900)
Derivative financial assets total	**131,462**	**192,345**	**126,052**	**190,486**
Derivative financial liabilities total	**(118,102)**	**(180,293)**	**(121,508)**	**(186,184)**
Derivative financial instruments total	**13,360**	**12,052**	**4,544**	**4,302**

c) Hedge accounting

OTP Bank regularly enters into hedging transactions in order to decrease its financial risks. However some economically hedging transaction do not meet the criteria to account for hedge accounting, therefore these transactions were accounted as derivatives held for trading. Net investment hedge in foreign operations is not applicable in separate financial statements.

The summary of the hedging transactions of the Bank are as follows:

As at 31 December 2016:

Types of the hedges	Description of the hedging instrument	Fair value of the hedging instrument	The nature of the risk being hedged
Cash-flow hedges	–	–	–
Fair value hedges	IRS	HUF (13,720) million	Interest rate
Fair value hedges	CCIRS	HUF 172 million	Interest rate/ Foreign currency

As at 31 December 2015:

Types of the hedges	Description of the hedging instrument	Fair value of the hedging instrument	The nature of the risk being hedged
Cash-flow hedges	–	–	–
Fair value hedges	IRS	HUF 1,670 million	Interest rate
Fair value hedges	CCIRS	HUF (3,603) million	Interest rate/ Foreign currency

d) Fair value hedges

1. Securities available-for-sale

OTP Bank holds fixed interest rate securities denominated in HUF and fixed interest rate government bonds denominated in HUF and EUR within the available-for-sale portfolio. These fixed interest rate securities and bonds are exposed to the fair value risk driven by the changes in the risk-free interest rates. In order to hedge the interest rate risk of the cash-flows OTP Bank entered into pay fixed-receive floater interest rate swap transactions, where the risk from the cash-flows of the securities are swapped to payments linked to 3 or 12 month EURIBOR and the risk from the cash-flows of the bonds are swapped to payments linked to 6 month BUBOR, resulting in a decrease in the fair value exposure of the securities available-for-sale. OTP Bank holds floating interest rate bonds denominated in EUR within the available-for-sale portfolio. The cash-flows of the securities are exposed to the change in the EUR foreign exchange rate and the risk of change in interest rates of EUR. The interest rate risk and foreign exchange risk related to these securities are hedged with CCIRS transactions.

	2016	2015
Fair value of the IRS hedging instruments	(19,305)	(11,266)
Fair value of the CCIRS hedging instruments	(800)	(3,668)

2. Loans to customers/corporates

OTP Bank has fixed interest rate loans denominated in various currencies. These fixed interest rate loans are exposed to fair value risk of changes of risk-free interest rates. In order to hedge the interest rate risk of the cash-flows OTP Bank entered into pay-fixed, receive-floater interest rate swap transactions, where the risk of the payments from the loans are swapped to payments linked to 3 month EURIBOR or BUBOR resulting in a decrease in the interest-rate fair value exposure of the loans to customers. OTP Bank has further floating interest rate loans denominated in RON and CHF. These loans are exposed to the change of foreign exchange of RON and CHF and the risk of FX component of change in interest rates of CHF. In order to hedge the foreign currency risk and the interest rate risk OTP Bank entered into CCIRS transactions.

	2016	2015
Fair value of the hedging IRS instruments	(4)	(165)
Fair value of the hedging CCIRS instruments	972	65

3. Issued securities

The cash-flows of the fixed rate securities issued by OTP Bank are exposed to the change in the HUF/EUR foreign exchange rate and the risk of change in the risk-free interest rates of EUR and HUF. The interest rate risk and foreign exchange risk related to these securities are hedged with EUR and HUF IRS and index option transactions. In the case of IRS transactions the fixed cash-flows were swapped to payments linked to 3 month EURIBOR or BUBOR, resulted a decrease in the interest rate and foreign exchange exposure of issued securities.

	2016	2015
Fair value of the hedging IRS instruments	5,589	13,101

As at 31 December 2016:

Types of hedged items	Types of hedging instruments	Fair value of the hedged items	Fair value of the hedging instruments	Gains/losses attributable to the hedged risk	
				on the hedged items	on the hedging instruments
Securities available-for-sale	IRS	HUF 853,804 million	HUF (19,305) million	HUF 11,723 million	HUF (13,619) million
Securities available-for-sale	CCIRS	HUF 156,739 million	HUF (289) million	HUF (1,760) million	HUF 1,760 million
Loans to customers	IRS	HUF 451 million	HUF (4) million	HUF (161) million	HUF 161 million
Loans to corporates	CCIRS	HUF 58,314 million	HUF 461 million	HUF (203) million	HUF 203 million
Liabilities from issued securities	IRS	HUF 69,959 million	HUF 5,589 million	HUF 7,512 million	HUF (7,512) million

As at 31 December 2015:

Types of hedged items	Types of hedging instruments	Fair value of the hedged items	Fair value of the hedging instruments	Gains/losses attributable to the hedged risk	
				on the hedged items	on the hedging instruments
Securities available-for-sale	IRS	HUF 668,484 million	HUF (11,266) million	HUF 9,818 million	HUF (8,696) million
Securities available-for-sale	CCIRS	HUF 317,230 million	HUF (3,668) million	HUF 2,064 million	HUF (3,668) million
Loans to customers	IRS	HUF 5,561 million	HUF (165) million	HUF (252) million	HUF 252 million
Loans to corporates	CCIRS	HUF 56,458 million	HUF 65 million	HUF 202 million	HUF 65 million
Deposits from customers	IRS	–	–	HUF 107 million	HUF (107) million
Liabilities from issued securities	IRS	HUF 71,786 million	HUF 13,101 million	HUF 348 million	HUF (348) million
Liabilities from issued securities	Index option	–	–	HUF 9 million	HUF (9) million

e) Fair value classes

Methods and significant assumptions used to determine fair value of the different classes of financial instruments:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly or indirectly. Fair value measurements – in relation with instruments measured not at fair value – are categorized in level 2;

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

As at 31 December 2016:

	Total	Level 1	Level 2	Level 3
Financial assets at fair value through profit or loss	271,000	131,363	139,637	–
from this: securities held for trading	147,424	131,276	16,148	–
from this: positive fair value of derivative financial instruments classified as held for trading	123,576	87	123,489	–
Securities available-for-sale	1,471,428	850,427	619,138	1,863*
Positive fair value of derivative financial instruments designated as fair value hedge	7,886	–	7,886	–
Financial assets measured at fair value total	**1,750,314**	**981,790**	**766,661**	**1,863**
Negative fair value of derivative financial instruments classified as held for trading	96,668	267	96,401	–
Negative fair value of derivative financial instruments designated as fair value hedge	21,434	–	21,434	–
Financial liabilities measured at fair value total	**118,102**	**267**	**117,835**	**–**

* In 2016 whole portfolio includes Visa Inc. "C" preferential shares.

As at 31 December 2015:

	Total	Level 1	Level 2	Level 3
Financial assets at fair value through profit or loss	251,707	85,301	166,406	-
from this: securities held for trading	93,130	85,280	7,850	-
from this: positive fair value of derivative financial instruments classified as held for trading	158,577	21	158,556	-
Securities available-for-sale	1,434,091	670,809	757,615	5,667*
Positive fair value of derivative financial instruments designated as fair value hedge	33,768	–	33,768	–
Financial assets measured at fair value total	**1,719,566**	**756,110**	**957,789**	**5,667**
Negative fair value of derivative financial instruments classified as held for trading	144,592	34	144,558	-
Negative fair value of derivative financial instruments designated a s fair value hedge	35,701	–	35,701	–
Financial liabilities measured at fair value total	**180,293**	**34**	**180,259**	**–**

NOTE 39: RECONCILIATION OF FINANCIAL STATEMENTS PREPARED UNDER HAS AND FINANCIAL STATEMENTS PREPARED UNDER IFRS (in HUF mn)

	Retained Earnings and Reserves 1 January 2016	Net profit for the year ended 31 December 2016	Dividend	Direct Movements on Reserves	Retained Earnings and Reserves as at 31 December 2016
Financial Statements in accordance with HAS	**880,950**	**201,641**	**-**	**(250)**	**1,082,341**
Premium and discount amortization of financial instruments measured at amortised cost	2,476	243	-	(166)	2,553
Effect of redemption of issued securities	10,576	(3,637)	-	-	6,939
Differences in carrying value of subsidiaries	34,115	(81)	-	250	34,284
Difference in accounting for finance leases	(774)	761	-	-	(13)
Effects of using effective interest rate method	6,445	(1,465)	-	-	4,980
Fair value adjustment of held for trading and available-for-sale financial assets	61,352	11,764	-	321	73,437
Fair value adjustment of derivative financial instruments	12,616	4,049	-	1,796	18,461
Reversal of statutory goodwill	40,596	-	-	-	40,596
Revaluation of investments denominated in foreign currency to historical cost	(8,454)	(10,307)	-	-	(18,761)
Difference in accounting of security lending	(21,589)	(239)	-	-	(21,828)
Treasury share transaction	-	4,226	-	(4,226)	-
Share-based payment	-	(3,530)	-	3,530	-
Payments to ICES holders	2,927	5,515	-	(3,578)	4,864
OTP–MOL share swap transaction	(50,831)	67	-	-	(50,764)
Receivable related to customer loans converted into HUF	6,164	(6,165)	-	-	(1)
Conversion into HUF of customer loans	(419)	105	-	-	(314)
Provision on contingent liabilities	-	(11,245)	-	-	(11,245)
Deferred taxation	41,905	(19,324)	-	5,022	27,603
Dividend paid for 2015	46,200	–	(46,200)	–	–
Financial Statements in accordance with IFRS	**1,064,255**	**172,378**	**(46,200)**	**2,699**	**1,193,132**

* In 2015 whole portfolio includes shares of Visa Europe. The purchase price includes three components (upfront component: cash and Visa Inc. "C" preferential shares with limited marketability; and deferred earn-out payment). The book value of the shares is valuated up to the amount of the upfront component. Sensitivity analysis is not applicable.

NOTE 40: SIGNIFICANT EVENTS DURING THE YEAR ENDED 31 DECEMBER 2016

1) Capital increase at OTP Bank Romania

See details in Note 9.

2) Capital increase at OTP Bank JSC (Ukraine)

See details in Note 9.

3) Capital increase at Bank Center No. 1. Ltd.

See details in Note 9.

4) Agreement on purchasing unit of AXA Bank Hungary

See details in Note 9.

5) New acquisition in Croatia

See details in Note 9.

6) Term Note Program

See details in Note 16.

NOTE 41: POST BALANCE SHEET EVENTS

1) Capital increase at OTP Real Estate Leasing Ltd.

See details in Note 9.

NOTE 42: STATEMENT OF ECONOMIC SITUATION AND IMPLICATIONS ON THE BANK'S FINANCIALS

In 2016 macroeconomic developments were still shaped by fragile global growth, intensifying fears surrounding China's slowing economy, concerns about the Brexit referendum, and the political uncertainty caused by the US presidential election. Economic growth accelerated in both the USA and the Eurozone at the end of the year. Having bottomed out in spring, commodity prices started to recover, helping inflation rise worldwide at the end of the year. The new American president's programme, which is based on tax reduction, investments into infrastructure, and more pronounced protectionist measures, and which is expected to lead to larger budget deficit, boost growth, and raise inflation, led to higher long-term yields, causing the Fed to launch a slow tightening cycle, yet the forward-looking US real interest rates may stay in negative territory until the end of next year. The same will apply to European markets, because despite the Eurozone's accelerated growth, the ECB remains committed to maintaining loose monetary conditions.

In 2016, the economic performance of Central and Southeast Europe remained convincing, mainly because the fast contraction in unemployment and the acceleration in wage dynamics have bolstered consumption, counterbalancing the fall in EU-co-financed investments. Thus the region's economic growth slowed at milder pace, from 3–4% in 2015 to near 3% annually, and this pace is likely to persist throughout 2017 and 2018.

Hungary's economy grew by 2% in 2016, after expanding by 3% in 2015 and 4% in 2014. Economic growth decelerated to 1.6% by the fourth quarter. Most of this slowing can be put down to a sharp fall in EU-co-financed investments, and a setback in industrial production. Nevertheless, growth without one-off items (EU funds and agriculture) reached 3% in 2016. The main reason for this is the faster private consumption and the continued increase in market services value added. Another encouraging sign is that in industries that are less affected by EU funds (manufacturing and market services) investments have speeded up meaningfully because of the lack of capacity; a number of industries may see double-digit annual growth. The situation is similar on the real property market, where the rising prices, and the 'catalyst effect' of the earlier announced government measures sent building permit numbers soaring, in residential and commercial properties alike. Hungary's economic growth may draw near or exceed 4% in 2017, as the favourable underlying processes are likely to continue their upturn – in the case of consumption, they will be boosted by the government's measures announced at the end of 2016 that will accelerate wages' growth in 2017 (through cutting employers' social contributions, while raising minimum wages and guaranteed minimum wages for skilled workers); besides, EU fund inflow is likely to pick up in 2017, recovering from its fall in 2016.

The balance indicators of the Hungarian economy remain promising. On a four-quarter rolling basis, the general government swung into a surplus of 0.2% of GDP by the third quarter, which would have allowed a balanced budget. In order to boost the economy, the government decided to carry out significant one-off payments in the last months of the year, thus the budget ended the year with a deficit of 1.6% of GDP. Despite the announced tax cuts, we think plenty of fiscal room is left for 2017 to remain within the 2.4% deficit target. Hungary's public debt shrank further, to around 74% of GDP by the end of 2016.

In the second half of the year inflation picked up, ending the almost-three-year-long period of near-zero inflation (–0.2% in 2014, –0.1% in 2015, and +0.3% in 2016). By the end of the year, 12-month inflation climbed to 1.8%, chiefly owing to the higher commodity prices, and also because of the increase in demand-sensitive market services prices. Even though imported inflation is likely to remain low, looking forward, inflation will oscillate around the NBH's 3% target in 2017, and we expect annual inflation to average 2.9%.

Seeing the lower-than-expected global interest rate environment, the NBH launched an easing cycle in spring 2016, lowering the three-month deposit rate from 1.35% to 0.9%. Later, under the Self-Financing Programme, the Monetary Council launched new unconventional instruments, to prevent an unwanted forint firming, and in order that the targeted yield reduction could reach the longer end of the yield curve too. The former weekly auctions were replaced by four-weekly 3M deposit auctions. Since September, the NBH has been setting a cap on 3M deposits in each quarter, while it boosts the banking system's liquidity through FX swap auctions. As a result of these measures, short-term money market interest rates sank near zero, and the 3M BUBOR rate dropped to 25 basis points.

On 15 December 2015 the Hungarian Parliament amended the Act No. CCXVII of 2015, which contained amendments to the special tax on financial institutions. Pursuant to the amended law the HUF 34.9 billion special banking tax paid by OTP Group's Hungarian members in 2015 declined to HUF 16.1 billion in 2016. The total annual amount of the banking tax payable in 2016 was booked in one sum in the first quarter of 2016.

From 2017 the base of the Hungarian banking tax is the adjusted balance sheet total at the actual calendar year minus two years (i.e. for the 2017 banking tax calculation the end-2015 adjusted total assets must be used). The applicable upper tax rate has been moderated to 0.21%. Furthermore, the contribution tax introduced in 2006 was entirely abolished. In 2016 its annual amount was HUF 2 billion.

From 2016 the Government significantly eased the conditions of purchasing new and used flats and widened the range of eligible families within the framework of the **Housing Subsidy for Families** (Hungarian abbreviation: CSOK). At OTP Core the State subsidized housing loan applications increased substantially (+127% year-to-year) due to the demand generated by the Housing Subsidy for Families. Thus, within the total housing loan applications the demand for the subsidized housing loans represented 44% (versus 35% in 2015). In 2016 close to 10,500 applications were registered with a value of over HUF 34 billion. Applicants also combined CSOK with subsidized or market-based loan applications in the amount of HUF 47 billion.

The NBH launched the third phase of the Funding for Growth Scheme from the beginning of 2016. According to the data published by the NBH on 3 January 2017 the Hungarian credit institutions participating in the scheme had contracted for loans in the amount of HUF 473 billion in 2016 under the Funding Growth Scheme ("FGS"), of which OTP's share represented HUF 74 billion. In October 2016 NBH decided about applying more flexible conditions for utilizing FGS loan facilities, and also extended the deadline to draw down loans under the FGS by 6 months (until 29 June 2018). In November the Monetary Council decided to extend the closing date for conclusion of loan contracts until 31 March 2017.

Effective from 1 January 2017 the **Hungarian corporate tax rate** was cut uniformly to 9% and the move implied revaluation of deferred tax assets and liabilities at Hungarian Group members. These revaluations had a total impact of –HUF 2.7 billion stemming from two components: on one hand there was a –HUF 6.1 billion profit and loss impact booked among the adjustment items. Also, the revaluation impact booked directly against equity in the fourth quarter of 2016 is +HUF 3.4 billion. This item is owing to the revaluation of deferred tax liabilities related to the mark-to-market valuation gains of AFS securities booked directly against equity.

OTP Bank
Annual Report
2016

Corporate Governance

Senior management of OTP Bank and executive members of the Board of Directors

Dr. Sándor Csányi

Chairman & CEO

Dr. Sándor Csányi graduated from the College of Finance and Accountancy in 1974 with a bachelor's degree in business administration and in 1980 from the Marx Károly University of Economic Sciences with a degree in economics. He is an economist with a specialisation in finance, and a certified auditor. After graduation he worked at the Revenue Directorate and then at the Secretariat of the Ministry of Finance, after which, between 1983 and 1986, he was a departmental head at the Ministry of Agriculture and Food Industry. From 1986 to 1989 he worked as a head of department at Magyar Hitel Bank. He was deputy CEO of K&H Bank from 1989 to 1992. He has been Chairman & CEO of OTP Bank Plc. since 1992. He is a member of the European Advisory Board of MasterCard, one of the world's leading payment card companies, and is Vice Chairman of the Board of Directors of MOL Plc., Co-Chairman of the National Association of Entrepreneurs and Employers (VOSZ), and Co-Chairman of the Chinese–Hungarian Business Council. He has been Chairman of the Hungarian Football Association (MLSZ) since July 2010, and a member of the UEFA Executive Committee since March 2015. Since January 2017 he has been a member of FIFA's Financial Committee.

As of 31 December 2016 he held 416,753 ordinary OTP shares (while the total number of OTP shares held by him directly and indirectly was 2,216,753).

László Bencsik

Chief Strategy and Finance Officer
Strategy and Finance Division

In 1996, Mr. László Bencsik graduated from the Faculty of Business Administration at the Budapest University of Economic Sciences, and in 1999 he obtained a Masters in Business Administration (MBA) from INSEAD Business School in France.

Between 1996 and 2000 he worked as a consultant at Andersen Consulting (now Accenture). From 2000 to 2003 he was a project manager at consulting firm McKinsey & Company.

He joined OTP Bank in September 2003, when he became managing director of the Bank Operations Management Directorate, and the manager with overall responsibility for controlling and planning. He has been deputy CEO of OTP Bank, and head of the Strategy and Finance Division, since August 2009. Since 13 March 2012 he has been Chairman of the Supervisory Board of DSK Bank.

As of 31 December 2016 he held 30,033 ordinary OTP shares.

Tibor András Johancsik

Deputy CEO
IT and Bank Operations Division

Mr. Tibor András Johancsik graduated from the Budapest Technical University with a degree in electrical engineering in 1988, and then in 1993 earned a further degree in foreign trade business administration from the College of Foreign Trade. He began his professional career at as a researcher in the field of industrial automation at the Hungarian Academy of Sciences Institute for Computer Science and Control (MTA SZTAKI). From 1994 onwards he held management positions at the Hungarian subsidiaries of international IT development companies (ICL, Unisys, Cap Gemini). From 2001 he worked as an advisor in the fields of IT and organisational development, then from 2003, as managing director of JET-SOL Kft., he participated in the development of numerous systems in Hungary and abroad.

Since 24 February 2016 he has been Deputy CEO in charge of OTP Bank's IT and Bank Operations Division.

As of 31 December 2016 he held no ordinary OTP shares.

Antal György Kovács
Deputy CEO
Retail Division

Mr. Antal György Kovács graduated from the Marx Károly University of Economic Sciences with a degree in economics. He began his professional career in 1990 at the Nagyatád branch of K&H Bank, where he worked as a branch manager between 1993 and 1995. He has been working at OTP Bank Plc. since 1995, first as a county director and from 1998 as the managing director of OTP Bank's South Transdanubian Region. Since 1 July 2007 he has served as OTP Bank's Deputy CEO. He has received additional training at the International Training Centre for Bankers and on various courses held by the World Trade Institute. Between April 2009 and April 2012 he was Chairman of the Supervisory Board of OTP Banka Hrvatska. He has been Chairman of the Supervisory Board of OTP Bank Romania SA since 12 December 2012. He has been Chairman of the Board of Directors of OTP Mortgage Bank Ltd. and OTP Building Society Ltd. since 24 April 2014. He is Chairman of the Supervisory Board of OTP Fund Management and OTP Mobile Kft.
He was a member of OTP Bank's Supervisory Board from 2004 to 14 April 2016.
He has been a member of OTP Bank's Board of Directors since 15 April 2016.
As of 31 December 2016 he held 22,000 ordinary OTP shares.

László Wolf
Deputy CEO
Commercial Banking Division

Mr. László Wolf graduated from the Marx Károly University of Economic Sciences in 1983.
After graduation, he worked at the Bank Relations Department of the National Bank of Hungary for 8 years, and then served as head of Treasury at BNP-KH-Dresdner Bank between 1991 and 1993. From April 1993 he was managing director of OTP Bank's Treasury Directorate, and since 1994 he has been Deputy CEO of the Commercial Banking Division and a member of the Supervisory Board of DSK Bank. He has been Chairman of the Board of Directors of OTP banka Srbija since 10 December 2010. He is Chairman of the Supervisory Board of OTP Real Estate Ltd.
He has been a member of OTP Bank's Board of Directors since 15 April 2016.
As of 31 December 2016 he held 595,791 ordinary OTP shares.

Non-executive members of the Board of Directors of OTP Bank

Mihály Baumstark
Agricultural Business Administration, Economics

Mr. Mihály Baumstark graduated with a degree in agricultural business administration at Gödöllő University of Agriculture (1973), and went on to do a masters in economics at the Marx Károly University of Economic Science (1981). He was employed by the Ministry of Agriculture and Food Industry between 1978 and 1989. When he left the Ministry he was deputy head of the Investment Policy Department. After this he was managing director of Hubertus Bt., and from 1999 to 2012 he was deputy CEO and then Chairman & CEO of Villányi Winery Ltd. (now Csányi Winery Ltd.). He is currently retired. He was a member of OTP Bank's Supervisory Board from 1992 to 1999, and has been a non-executive member of OTP Bank's Board of Directors since 1999. He has been Chairman of OTP Bank's Ethics Committee since 2010, as well as a member of its Remuneration Committee since 2011, and of its Nomination Committee since 2014.
As of 31 December 2016 he held 44,800 ordinary OTP shares.

Dr. Tibor Bíró
College Associate Professor

Dr. Tibor Bíró graduated from the College of Finance and Accountancy (1974) and from the Marx Károly University of Economics (1978) with a degree in business administration. He has been a certified auditor and chartered accountant since 1986. He was the Head of the Financial Department of the City Council of Tatabánya from 1978 to 1982. From 1982, he was a professor at the College of Finance and Accounting, and between 1990 and 2013 head of department at the Budapest Business School. Since his retirement in 2015, he has been a visiting lecturer, and working actively in his auditing and consulting company.
From 2000 onwards, for a period of ten years, he was a member of the Presidium of the Budapest branch of the Chamber of Hungarian Auditors, and also worked as a member of the Chamber's Education Committee for five years.
He has been a non-executive member of OTP Bank's Board of Directors since 1992. He has been a member of OTP Bank's Remuneration Committee since 2009, and of its Nomination Committee since 2014.
As of 31 December 2016 he held 31,956 ordinary OTP shares.

Tamás Erdei
Business Administration

Mr. Tamás Erdei graduated in 1978 with a degree from the College of Finance and Accounting. He began his professional career at OTP, in a variety of administrative roles (his last position was branch manager), before going on to work at the Ministry of Finance in the area of bank supervision.
Since 1983 he has been employed by the Hungarian Foreign Trade Bank (today MKB), where he gradually worked his way up through the ranks. In 1985 he became managing director, in 1990 he was appointed deputy CEO, then in 1994 he was made CEO, and from 1997 until the end of March 2012 he was Chairman & CEO. Between 1997 and 2008, and between 2009 and 2011, he was the elected president of the Hungarian Banking Association. He is the chairman of the Supervisory Board of the International Children's Safety Service.
He has been a member of OTP Bank's Board of Directors since 27 April 2012. He has been a member of OTP Bank's Risk Assumption and Risk Management Committee, and of its Nomination Committee, since 2014.
As of 31 December 2016 he held 6,439 ordinary OTP shares.

Dr. István Gresa
Business Administration
and Economics

Dr. István Gresa graduated from the College of Finance and Accountancy in 1974 and received a degree in economics from the Marx Károly University of Economic Sciences in 1980. He earned a PhD from the same establishment in 1983.
He has worked in the banking sector since 1989. Between 1989 and 1993 he was branch manager of Budapest Bank's Zalaegerszeg branch.
From 1993 he was director of OTP Bank's Zala County Directorate, and from 1998 he served as the managing director of the bank's West Transdanubian Region.
From 1 March 2006 until 14 April 2016 – when he retired – he was deputy CEO of the Credit Approval and Risk Management Division. He is also Chairman of the Board of Directors at OTP Factoring Ltd.
He has been a member of OTP Bank's Board of Directors since 27 April 2012.
As of 31 December 2016 he held 132,041 ordinary OTP shares.

Dr. Antal Pongrácz
Economics

Dr. Antal Pongrácz graduated from the Marx Károly University of Economic Sciences in 1969 and earned a PhD in 1971. From 1969 he worked as an analyst at the Petrochemical Investment Company, then as a group manager at the Revenue Directorate until 1975. From 1976 he held various executive positions at the Ministry of Finance. After that, he was the first Deputy Chairman of the State Office for Youth and Sports.
Between 1988 and 1990 he was the first Deputy CEO of OTP Bank.
Between 1991 and 1994 he was CEO, and then Chairman & CEO, of the European Commercial Bank Rt.
Between 1994 and 1998 he was Chairman & CEO of Szerencsejáték Rt, then in 1998–99 he served as CEO of Hungarian flagship carrier, Malév. Since 2001 he has been managing director of OTP Bank's Staff Division and more recently – up until his retirement on 14 April 2016 – Deputy CEO.
Since 12 April 2012 he has been Chairman of the Supervisory Board of OTP banka Hrvatska d.d.
He has been a member of OTP Bank's Board of Directors since 2002. He was a member of OTP Bank Plc's Board of Directors from 9 June 2009 to 14 April 2016.
As of 31 December 2016 he held 70,077 ordinary OTP shares.

Dr. László Utassy
Chairman & CEO
Merkantil Bank Ltd.

Dr. László Utassy graduated from the Faculty of Law of Eötvös Loránd University in Budapest in 1978.
He held various positions at the State Insurance Company between 1978 and 1995 and then went on to work at ÁB-Aegon Rt. He was Chairman & CEO of OTP Garancia Insurance from 1996 to 2008.
He was managing director of OTP Bank between 2009 and 2010.
Since 1 January 2011 he has been Chairman & CEO of Merkantil Bank Ltd.
He has been a member of OTP Bank's Board of Directors since 2001. He has been a member of OTP Bank's Risk Assumption and Risk Management Committee since 2014.
As of 31 December 2016 he held 264,000 ordinary OTP shares.

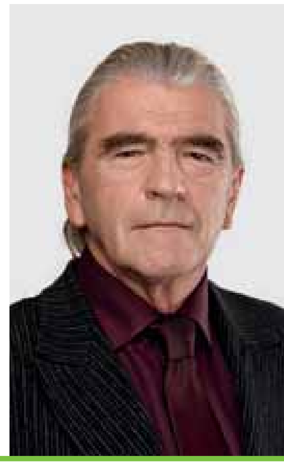
Dr. József Vörös
Professor, academician
University of Pécs

Dr. József Vörös earned a degree in economics from the Marx Károly University of Economic Science in 1974. In 1984 he earned a PhD in economics from the Hungarian Academy of Sciences, and a Doctor of Science degree in 1993. He has been a member of the Hungarian Academy of Sciences since 2013.
Between 1990 and 1993 he was the dean of the Faculty of Business and Economics, Janus Pannonius University (JPTE) in Pécs. In 1993 he attended a course in management for senior executives at Harvard University. From 1994 he was a professor at JPTE, and was the senior Vice Rector of the University from 2004–2007, between 2007 and 2011 he was chairman of the Board of Trustees.
He has been a non-executive member of OTP Bank's Board of Directors since 1992. He has been Chairman of OTP Bank's Remuneration Committee since 2009, and of its Risk Assumption and Risk Management Committee since 2014.
As of 31 December 2016 he held 156,114 ordinary OTP shares.

Members of the Supervisory Board of OTP Bank

Tibor Tolnay
Chairman of the Supervisory Board

In 1973, Mr. Tibor Tolnay graduated from the Budapest University of Technology with a degree in civil engineering and then in economic engineering in 1983, and subsequently received a degree in economics from the Budapest University of Economics in 1993. From 1994 to 2015 he was Chairman & CEO of Magyar Építő Rt. He has been the managing director of ÉRTÉK Ltd. since 1994, and a member of OTP Bank's Supervisory Board since 1992, and Chairman of the same Board since 1999. He was a member of OTP Bank's Audit Committee between 2007 and 2011, and has been again since 2014. As of 31 December 2016 he held 54 ordinary OTP shares.



Dr. Gábor Horváth
Deputy Chairman of the Supervisory Board
Lawyer

Dr. Gábor Horváth earned a degree in law from Eötvös Loránd University in Budapest in 1980. From 1983 he worked for the Hungarian State Development Bank. From 1983 he worked for the Hungarian State Development Bank. He has been a lawyer since 1986, and since 1990 has run his own law firm, which specialises in corporate finance and corporate governance. His main fields of expertise are corporate finance and corporate governance. He has been a member of the Supervisory Board of OTP Bank since 1995, and was a member of MOL Plc's Board of Directors between 1999 and 2014. He has been Deputy Chairman of OTP Bank's Supervisory Board since 2007. He was a member of OTP Bank's Audit Committee between 2007 and 2011, and has been again since 2014. He has been a member of the Board of Directors of INA Industrija Nafte d.d. since 2014. As of 31 December 2016 he held no ordinary OTP shares.

András Michnai
Managing Director

Mr. András Michnai graduated in 1981 from the College of Finance and Accounting with a degree in business administration. He further expanded his professional skills, earning a Master's degree at the Budapest Business School, and is a registered tax advisor.
He has been an employee of the Bank since 1974, and until 1981 held a variety of posts in the branch network. Following this he held a management position in the central network coordination department before returning to work in the branch network. From 1994, as deputy managing director, he participated in the central coordination of the branch network. Between 2005 and 2014 he headed the Bank's Compliance Department as a managing director.
Since 2008 he has been a member of OTP Bank's Supervisory Board as employee delegate.
He has been Secretary of OTP Bank's Employees' Trade Union since December 2011.
As of 31 December 2016 he held 100 ordinary OTP shares.

Ágnes Rudas
Managing Director
Presidential Cabinet Office

Mrs. Ágnes Rudas, who represents the employees of OTP Bank, graduated from the College of Finance and Accounting with a degree in business economics in 1979. She is a certified accountant. She has worked for the bank since 1992, first as a head of department coordinating the secretarial services supporting the bank's operative activity, then from 1994 onwards she managed organisational development, process engineering and efficiency-boosting projects. Since 1999 she has coordinated human resource management activity, initially as a director and from 2007 as a managing director. She has been head of the Presidential Cabinet Office since 2016.
She has been a member of the Board of Directors of the OTP Voluntary Supplementary Pension Fund since 1 January 2008, and a member of the Supervisory Board of OTP Banka Slovensko a.s. since 12 April 2012.
With effect from 15 April 2016 she has been a member of OTP Bank's Supervisory Board as employee delegate.
As of 31 December 2016 she held 141,138 ordinary OTP shares.

Dominique Uzel
Director
Groupama International SA

Mr. Dominique Uzel graduated as an agricultural development engineer, then obtained a Master's degree in agricultural and food industry management at the ESSEC Business School. He joined Gan in 1991 as head of the agricultural division. Five years later he left France to join Gan España, where he headed the subsidiary's department responsible for planning and auditing, then became technical director of the newly established Groupama Seguros. In 2008 he was appointed Managing Director of the insurance business, in which capacity he was instrumental in the launch and roll-out of Click Seguros, a direct marketing tool on the Spanish insurance market. In July 2010 he joined the international board of Groupama S.A. as director of direct insurance, but he also continued to be responsible for the management of the direct insurance division in Spain and Poland. Since 1 October 2012 he has coordinated the international operations of Groupama.
He has been a member of OTP Bank's Supervisory Board since 2013. He has been a member of OTP Bank's Audit Committee since 2014.
As of 31 December 2016 he held no ordinary OTP shares.

Dr. Márton Gellért Vági
General Secretary
Hungarian Football Association

Dr. Márton Gellért Vági graduated in 1987 from the department of foreign economics at the Marx Károly University of Economic Science (today the Corvinus University of Budapest), where he also earned his doctorate in 1994. From 1987 to 2000 he was a member of the university faculty, in the capacity of associate professor and head of department from 1994 onwards. Between 2000 and 2006 he worked at the State Holding and Privatisation Co. (ÁPV Zrt.), as managing director, deputy CEO and then CEO. Between 2006 and 2010 he was Chairman of the National Development Agency. From July 2002 until 1 January 2011 he was a member of the Board of Directors of FHB Nyrt., during which period he also spent four years as Chairman of the Board. Since 2010 he has been general secretary of the Hungarian Football Association. He has authored or co-authored more than 80 research papers, essays and books.
He has been a member of OTP Bank's Supervisory Board since 2011. He has been a member of OTP Bank's Audit Committee since 2014.
As of 31 December 2016 he held no ordinary OTP shares.

Information for Shareholders

General company data

Date of foundation:

31 December 1990, registered by the Metropolitan Court of Budapest as Court of Registration on 28 October 1991 under company registration number 01-10-041585. The latest Bylaws may be requested from the company or may be downloaded from the Bank's website.

Legal predecessor:

Országos Takarékpénztár, founded 1 March 1949

Registered head office of OTP Bank Plc.:

16 Nádor Street, H-1051 Budapest
Telephone: (+36-1) 473-5000
Fax: (+36-1) 473-5955

Share capital:

OTP Bank's share capital as at 31 December 2016 was HUF 28,000,001,000, consisting of 280,000,010 ordinary shares of nominal value HUF 100 each.

Ownership structure as at 31 December 2016:

Description of owner	At the beginning of actual year			End of actual period		
	% [1]	% [2]	Qty	% [1]	% [2]	Qty
Domestic institution/company	20.31%	20.58%	56,865,293	20.20%	20.47%	56,561,346
Foreign institution/company	63.77%	64.62%	178,546,741	64.83%	65.71%	181,528,602
Domestic individual	5.95%	6.03%	16,656,480	3.88%	3.93%	10,852,905
Foreign individual	0.43%	0.44%	1,215,093	0.16%	0.16%	447,025
Employees, senior officers	1.37%	1.38%	3,825,466	1.33%	1.35%	3,726,348
Treasury shares[3]	1.31%	0.00%	3,677,506	1.33%	0.00%	3,737,768
Government held owner[4]	0.09%	0.09%	238,312	0.08%	0.08%	225,928
International Development Institutions[5]	0.01%	0.01%	38,242	0.02%	0.02%	49,715
Other[6]	6.76%	6.85%	18,936,877	8.17%	8.28%	22,870,373
Total	**100.00%**	**100.00%**	**280,000,010**	**100.00%**	**100.00%**	**280,000,010**

Stock exchange listing

The ordinary shares of OTP Bank Plc. are listed on the Budapest Stock Exchange under category "Premium Equity", and the global depository receipts (GDRs) representing the ordinary shares that are traded abroad are listed on the Luxemburg Stock Exchange. (2 GDR represents 1 ordinary shares.)

Regulation S GDRs are traded on the London SEAQ International, and Rule 144A GDRs are traded in the PORTAL system. The custodian bank for OTP GDRs is the Bank of New York, and the safekeeping bank is OTP Bank Plc. (Stock exchange symbol for OTP Bank shares: OTP, Reuters: OTP.BU)

[1] Ownership share.
[2] Voting rights.
[3] Treasury shares include the aggregated amount of own shares held by the mother company, the subsidiaries and ESOP.
[4] E.g.: State Privatization Holding Co. Ltd., Social Security, Municipality, 100% state-owned companies, Pension Reform and Debt Reduction Fund etc.
[5] E.g.: EBRD, EIB etc.
[6] Non-identified shareholders according to the shareholders' registry.

The Annual General Meeting will be conducted with the personal presence of those entitled to participate. Shareholders may participate in the Annual General Meeting in person or through a proxy. OTP Bank Plc. is entitled to check the personal identity of the shareholders and their proxies on the basis of documents, prior to their admission to the Annual General Meeting.

The authorisations relating to representation as a proxy at the Annual General Meeting must comply with the relevant provisions of Hungarian law. The authorisation must include, clearly and expressly, a statement of authorisation with respect to the proxy, a specification of the authoriser and of the proxy, and any limitations that may apply to the authorisation. The authorisation must be issued in the form of a notarised deed or a private document of full probative force.
One representative may represent several shareholders; however, he/she must possess authorisations from every shareholder represented by him/her, either in the form of a notarised deed or a private document of full probative force. If several proxies are indicated in one authorisation, then it must be specified that, under the authorisation, each proxy may exercise his/her right of representation independently. If one shareholder is represented by several proxies, they may not vote or make statements differently from each other.

The letter of proxy may be issued as valid for one general meeting, or for a specified period, but for a maximum of twelve months. The letter of proxy – in the absence of a provision to the contrary – shall extend to a general meeting convened to continue a suspended general meeting, or a general meeting that has been reconvened due to lack of quorum.

If a shareholder is represented at the Annual General Meeting by its lawful representative (e.g. chief executive, managing director, mayor etc.), the court or company court document evidencing the right of representation – in its original form, or in the form of a copy certified as authentic by a notary public, issued not more than 30 days previously – or a certificate regarding the election of the mayor, as the case may be, must be presented at the venue of the Annual General Meeting. When providing evidence of the existence of companies (and other organisations) registered abroad, and of the right to represent the entity issuing the authorisation, it is essential that the foreign document be issued by a certified public records body or that these facts be attested by a notary public.

If the authorisation or any document submitted as evidence of the representation right was not issued in Hungary, the form of the document must satisfy the legal regulations pertaining to the certification and/or legalisation of documents issued abroad. According to these regulations, in the absence of a bilateral international agreement to the contrary, the diplomatic certification and/or legalisation of the document is needed, or – if the given country is a party to the relevant international convention – the furnishing of the document with an apostille is required. Detailed information on the applicable rules are provided by the Hungarian foreign representation offices.
If the document is written in a language other than English or Hungarian, then a certified Hungarian translation of the document must be presented.

The authorisation and the related documents must be handed over by 14:00 p.m. Budapest time on 07 April 2017 (Friday) at the very latest, at any of the designated OTP branches listed under section X below, or – if the proxy, based on a foreign document, is representing more than one shareholder – at the Legal Directorate of OTP Bank Plc. (1051 Budapest, Nádor utca 16.).

Preconditions for participation in the Annual General Meeting and for the exercising of voting rights are that:

a) the result of the shareholder identification procedure confirms the shareholding as at the date of the shareholder identification procedure;
b) the shareholder be registered in the Company's Share Register by the closure

of the register as specified in section III of this announcement;

c) the shareholding and/or the voting rights of the shareholder do not violate the legal regulations or the provisions of the Company's Articles of Association, and the Company shall check this circumstance.

Dividend

On 12 April 2017 OTP Bank Plc.'s General Meeting decided to pay dividend after fiscal year 2016.

Dividends will be HUF 190 per share, representing 190% of the face value of each share. The exact amount of dividend payable to the shareholders will be calculated and paid in pursuance of the Articles of Association of the Bank, the Company will distribute the amount of dividend calculated on treasury shares to shareholders entitled to receive dividend. Dividend payment will start on 6 June 2017 in pursuance of the procedure defined in the Company's Articles of Association.

Announcements

OTP Bank Plc. fulfils its disclosure obligations related to corporate events and prescribed in Act CXX of 2001 on the website of the OTP Bank Plc. (www.otpbank.hu), on the website of the Budapest Stock Exchange (www.bet.hu), and on the website operated by the National Bank of Hungary (www.kozzetetelek.hu).

Investor relations

Institutional shareholders of OTP Bank Plc. should contact the following address if they require further information:

OTP Bank Plc. Investor Relations & DCM
16 Nádor Street, H-1051 Budapest
Phone: (+36-1) 473-5460. Fax: (+36-1) 473-5951
e-mail: investor.relations@otpbank.hu

Anti-money laundering measures

Money laundering is any act or attempted act by criminals or other persons to conceal or disguise the identity of obtained proceeds of criminal offences so that they appear to have originated from legitimate sources, for which they may try using the services of financial institutions.

In order to prevent the use of our bank for money-laundering purposes, we will do our best to ascertain the true identities of those who would use our services and the rationale of using the services. OTP Bank will establish business relationship only with those clients who give evidence of their true identities in accordance with the relevant legal stipulations and will execute orders with legitimate purposes only.

In keeping with the provisions of Act CXXXVI of 2007 on the prevention and impeding of money laundering and the financing of terrorism OTP Bank has introduced, and applies, the following measures and rules:

- It operates an internal control and information system designed to prevent banking or financial operations that might enable, or in themselves constitute, money laundering.
- It has internal regulations, in accordance with the Anti-money Laundering Act, Ministry of Finance Decree 35/2007. (XII. 29.) and the recommendations, model rules and directions of the Central Bank of Hungary as supervisory body that all employees of the bank observe.
- The employees of the bank must fulfil their customer due diligence and reporting obligations.
- Compliance with the reporting obligations is not construed as a breach of bank, securities, insurance or business secrets.
- Failure to fulfil the reporting obligation may result in prosecution under criminal law.
- OTP Bank cooperates with the criminal investigation authorities in the investigation of all circumstances suggestive of money laundering.

OTP Bank discloses the customer identification procedure applied by the bank in an Announcement posted in all rooms open for serving customers.

With trust and responsibility for each other

OTP Bank's CSR activities

In 2016, OTP supported community development with financial donations valued at **HUF 1.6 billion.** As one of the primary donors in Hungary, our bank primarily makes its contributions through its own foundations to nurture culture (Prima Primissima), education (OTP Fáy András Foundation), and by creating opportunities (Humanitás Social Foundation).

OTP Bank's goal is to provide real and effective assistance; consequently apart from its foundations, it is open to further cooperation to provide value-oriented support with the involvement of concerned parties and professional partners.

Focusing on financial literacy

OTP Bank is invariably committed to improving financial literacy, therefore this remains a focus of its social responsibility programmes. As a market-leading financial service provider, OTP believes that it must take responsibility for the education of young people and adults, to enable them to make responsible decisions. Accordingly, the purpose of the Bank is to broaden the base of fundamental financial and economic literacy. The **OK Educational Centres of OTP's Fáy András Foundation** play a crucial role in achieving this objective.

Operation of OK Centres

The free training sessions remained highly popular amongst students in 2016. 14,000 students participated at the sessions of the OK Educational Centre in Budapest and at the financial, economic, management and career training sessions of its trainers, reaching out to close to an additional 7,000 students through its various events. The trainers in Nyíregyháza employed a finance and future-oriented approach with an additional 6000 students.

The OTP Fáy András Foundation went beyond the borders of Hungary by devoting particular attention to the financial-economic and career training of children and young adults. Thanks to its Romanian (Fundatia Dreptul la Educatie/Right to Education Foundation) and Slovakian (OTP Ready Nadacia) sister foundations, it yet again provided financial, economic, management and methodology training to hundreds of students and teachers beyond the borders of the country.

Successful launch of the Sulibank Experience Portal

Reaching out to elementary school-age children, as part of the **Sulibank Program,** the Sulibank Experience Portal received approximately 4000 registrations. The purpose of the portal is to address the elementary school age group and impart financial awareness through playful methods and relevant content, via an online medium.

The success of the Experience Portal is well illustrated by the professional awards it received: the international Comenius EduMedia Award and the eLearning Forum Innovation Special Award.

Apart from the website, which functions as an educational tool, the Foundation naturally continues to place a great deal of emphasis on group trainings. The number of schools involved in the program is continually on the rise: along with more than 5000 elementary school students, approximately 150 teachers are actively involved.

Involvement in the advanced financial training of teachers

We developed unique professional cooperation with ELTE in the advanced training of teachers. In Hungary, this is the only cooperative effort which provides advanced financial and methodology training for teachers without a degree in finance or economics.

Cooperation with the National Bank of Hungary

For the fifth year in a row, in 2016, the **Fáy Success Camp** was hosted in Balatonszemes. In the course of the program supported by the National Bank of Hungary, 250 students in 6 groups had the opportunity to discover the training courses of the OK Educational Centre of the OTP Fáy András Foundation.

The students – academically successful, yet mostly disadvantaged – came from all points of the country, including Pécs, Szeged, Sopron, Nagybajom, Mezőkövesd, Budapest, Nyíregyháza, Székesfehérvár and Kiskunhalas.

As a result of the professional success of **BanKing Card,** developed and manufactured through a joint program with the National Bank of Hungary, an additional batch was ordered in 2016. The financial card game is used by the Foundation as an educational tool to master a range of financial concepts.

It is an outstanding achievement of OTP Bank's financial education programmes that, to the best of our knowledge, these programmes reach the highest number of young people

in Hungary. Thanks to the continuously expanding range of programs and achievements, OTP Bank won the "Socially Responsible Bank of the Year" award from the jury of MasterCard.

Creating opportunities

In addition to improving public financial literacy, creating opportunities is still at the focal point of OTP Bank's CSR endeavours. As part of its socially responsible activities, OTP Bank supports valuable initiatives, encourages its employees to volunteer, and is ready to stand by private individuals who strive to highlight social issues and serve noble causes.

Thanks to the HUF 21 million support of OTP Bank, the previously unused floor inside the building of the Child Cardiology Centre of the National Cardiology Institute had been reconstructed, and the currently operating ward had undergone modernisation. Thanks to this development, the hospital's long-standing lack of beds has been resolved. Thanks to the support, the **Child Cardiology Centre has become more family-friendly,** by allowing parents to spend the physically and emotionally draining weeks of treatment and recovery with their heart patient children.

Apart from disposing of its unused machines, for years our bank has been donating its functional computers in an operational condition to non-governmental organisations and schools with no or poor quality IT systems. In order to make sure that our bank supports the neediest with its **computer donations,** as of September of last year, schools may apply by tender of the Humanitás Social Foundation. Over the past year, 14 institutions received 205 computers and monitors; from schools with hundreds of students to smaller foundations through which our bank can support children's homes and families in distress.

For more information on OTP Bank's CSR principles, objectives and current events, please visit our website at: www.otpbank.hu/csr

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